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31EX

Transcript Exhibit(s)

_____	T-01846B-05-0279	_____
_____	T-03258A-05-0279	_____
_____	T-03475A-05-0279	_____
_____	T-03289A-05-0279	_____
_____	T-03198A-05-0279	_____
_____	T-03574A-05-0279	_____
_____	T-02431A-05-0279	_____
_____	T-03197A-05-0279	_____
_____	T-02533A-05-0279	_____
_____	T-03397A-05-0279	_____
_____	T-03291A-05-0279	_____

Part 2 of 2

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2005 SEP 28 P 3: 59

AZ CORP COMMISSION
DOCUMENT CONTROL

547 **Q. How does the market for medium-sized businesses differ, if at all, from the**
548 **market for large enterprise customers?**

549 A. The market for medium-sized businesses is not very different from the market for
550 large enterprise customers. While smaller than the very large enterprise
551 businesses responsible for most of MCI's business revenues, these medium-sized
552 businesses still have sufficient demand for services that they are targeted by
553 specialized firms that do not seek to compete for the mass market. Many of these
554 businesses purchase the same types of integrated packages as larger enterprise
555 customers, and they utilize similar procurement methods. Others might purchase
556 more commoditized packages, but they do so in volumes sufficient to warrant
557 specialized attention from providers, and they buy them in combination with other
558 services. Competition to provide services to medium-sized businesses is similar
559 to what I described earlier. The same players are involved, as well as cable
560 companies, value-added resellers, and especially CLECs, who focus more intently
561 on medium-sized businesses.

562 **Q. Can you summarize your understanding of MCI's role in the enterprise**
563 **market in Arizona?**

564 A. MCI's business is concentrated in the large enterprise segment of the market, and
565 MCI is just one of a number of entities generating intense competition for
566 enterprise customers. Particularly because MCI's business activity is focused
567 primarily in Qwest's service territory in Arizona, Verizon is not a significant
568 competitor of MCI for these customers in Arizona.

V. BENEFITS OF THE MERGER

Q. What effects will the merger have on competition in Arizona?

A. The Notice of Intent filed with this Commission on April 13, 2005, particularly paragraphs 17 through 31, discusses at length the benefits of the merger. I incorporate that explanation and those statements here. The merger will have a pro-competitive effect and will not cause competitive harm in Arizona.⁴ In the enterprise market, MCI's and Verizon's networks, services, and areas of expertise are highly complementary and not overlapping. MCI is strong in the enterprise sector; Verizon is not. MCI operates a large Internet backbone network; Verizon does not. MCI has no wireless assets and offers no wireless services to enterprise customers; Verizon operates a large and successful wireless business. Thus, their combination will benefit customers by enabling the merged entity to operate at lower costs, to develop high-quality innovative services, and to deploy those services rapidly. It will bring Verizon, with all of its expertise and financial resources, into the Arizona enterprise market, and the combined company will be able to offer a broader and more complete array of services than either Verizon or MCI is positioned to offer on its own. And, because MCI's and Verizon's facilities and businesses in the state generally do not overlap, the merger will not result in a lessening of competition in the enterprise market. Moreover, the merged entity will not occupy a dominant position or otherwise be in any position

⁴ See, Supplemental Response of Verizon to Data Request JBF 1-91 served upon Staff on or about May 31, 2005.

to stifle growth in competition. Changes in technology and other developments have led to increased competition in all market areas for all types of customers, and MCI and Verizon typically do not now compete head-to-head for enterprise business in Arizona. In the mass market, the continuing decline of MCI's national mass market business results from factors unrelated to the merger and means that MCI will be an increasingly less important competitor for mass market customers in Arizona. This continuing decline, whether in the near future or following the merger with Verizon, will not substantially change the competitive balance in Arizona.

Q. What do MCI and Verizon bring to the combined company?

A. The contributions of Verizon and MCI to the merged company reflect their respective focuses to date and are highly complementary. MCI has a global fiber optic network and global data capabilities. One of MCI's most valuable assets is its considerable Internet Protocol backbone and IP-related expertise. In recent years, MCI has made a multi-billion dollar investment in developing IP-based technologies and applications to help businesses shift from voice-based to IP-based services. Verizon does not have a substantial Internet backbone or interLATA transmission facilities. On the other hand, Verizon Wireless has a similarly extensive wireless business and network, while MCI has no wireless presence.

The two companies' services are as complementary as their assets. Verizon largely focuses on local and regional services, while MCI focuses on

612 services for large enterprise customers with a global reach. As a result of this
613 focus, MCI brings strong relationships with enterprise customers and account
614 teams with in-depth understandings of their customers' businesses and unique
615 communications needs.

616 **Q. How will the combined company benefit enterprise customers?**

617 A. The combined company will be in a strong financial position to invest in the
618 existing IP network at a lower cost of capital than MCI could obtain on its own.
619 This increased investment will enable the new company to increase network
620 capacity, extend network reach, and add new capabilities to the network. Such
621 investment will become more attractive to the combined company because it will
622 be able to recover the costs associated with product development and network
623 expansion across a larger base of customers. Simply put, the merger will bring to
624 Arizona all of the capabilities and resources of Verizon.

625 These strengths will benefit enterprise customers. The new company will
626 be able to develop and deploy brand new services more rapidly than either
627 company could on its own. Especially promising in this regard is the
628 development and deployment of mobile IP services. These services represent a
629 combination of two prominent trends in telecommunications today: the shift to IP-
630 based services and the shift to wireless communication. With mobile IP services,
631 customers would have corporate mobility, allowing existing applications and data
632 to be accessed by workers, no matter where they are. New applications could be
633 developed that would exploit this newfound mobility. MCI has attempted to

634 explore this promising field, but has made little progress to date because it lacks a
635 wireless network. A combined company with MCI's IP backbone and Verizon's
636 wireless network would have the essential infrastructure to deploy mobile IP
637 devices. The company would also have the significant in-house expertise needed
638 to overcome the technical challenges to mobile IP services.

639 **Q. How will the combined company benefit government customers and impact**
640 **state and national security?**

641 A. The transaction will greatly benefit government customers. The merged company
642 will be able to provide an integrated suite of services that can better serve
643 government customers. In addition, the transaction will promote domestic
644 security by enhancing investment in the communications infrastructure that is
645 used by the Departments of Defense and Homeland Security, as well as other
646 federal and state agencies, and ensuring that the crucial networks remain robust
647 and technologically advanced.

648 **Q. Will the combined company be in a dominant competitive position or**
649 **otherwise stifle competition in Arizona?**

650 A. Not at all. Because MCI's business in Arizona is entirely complementary to
651 Verizon's, the transaction will not damage competition in any part of the
652 marketplace in Arizona.

653 More specifically, with respect to the mass market, with few exceptions,
654 MCI's business is already in decline due to a variety of factors unrelated to this
655 transaction, and MCI would not, absent the merger, be a significant competitor

656 going forward in this market. Indeed, as the facts discussed above plainly
657 demonstrate, in the absence of this transaction MCI's participation in the market
658 would consist largely of serving its dwindling legacy customer base and
659 managing its decline as a provider of mass market services. In addition, this
660 transaction will not affect the rapid growth of intermodal alternatives (which MCI
661 does not offer) such as cable and wireless, which are major factors in Arizona
662 today and will provide the most significant competition for mass market
663 customers in the future. For instance, in Arizona, cable companies have deployed
664 two-way broadband networks that were initially used to provide high-speed data
665 services, but are now increasingly being used to provide voice services. Wireless
666 carriers have secured an increasing percentage of voice traffic, spurring some
667 customers to give up their landline phones altogether. In addition, new VoIP
668 providers have deployed services over broadband networks and IP backbones,
669 offering services such as personal conferencing and locate-me services.
670 Accordingly, the mass market will retain its lively competitive character after the
671 merger is complete; the transaction simply reflects a transition in the market
672 caused by unrelated technological and regulatory factors that will continue to
673 reshape the market whether or not there is a merger between MCI and Verizon.

674 With respect to the enterprise market, and in particular with respect to the
675 large enterprise segment that is at the center of MCI's business in Arizona, the
676 combined company will be just one of many competitors. As discussed above,
677 enterprise customers are sophisticated in their approach to both identifying

potential vendors and negotiating extremely competitive pricing through the RFP process.

VI. EFFECTS OF THE MERGER

Q. Please summarize the effects and benefits of the merger.

The proposed merger will not impair the financial status of any MCI subsidiaries in Arizona, prevent any MCI subsidiaries from attracting capital at fair and reasonable terms, or impair the ability of any surviving MCI subsidiaries and the parent company, MCI, L.L.C., to provide safe, reasonable and adequate service because, as stated in paragraphs 42, 45, 46 and 47 of the Notice of Intent filed April 13, 2005. As stated by both MCI and Verizon in response to Staff Data Request JFB 1-65, the financial strength of Arizona subsidiaries and access to capital for MCI subsidiaries should increase from the resulting merged entity. In addition, as stated by Verizon in its response to Data Request JBF 1-65, this transaction will enhance the abilities that both Verizon and MCI now possess as stand-alone companies to provide a comprehensive suite of services to consumers, businesses and government customers. It will bring together two companies with complementary strengths in a way that will benefit the existing customers of each company. It will enhance Verizon's ability to compete for and serve large businesses and government customers by improving the delivery of competitively priced wireline services, broadband services, wireless services and IP-based

700 services to that vital sector of the U.S. economy. Finally, as stated in paragraph
701 47 of the Notice of Intent, the transaction will have no adverse effect on the rates
702 or the quality of service of the regulated subsidiaries of MCI and Verizon. To the
703 contrary, as a result of the transaction, the operating subsidiaries of both
704 companies will be able to provide better services to their customers than either
705 company could provide alone.

706 **Q. Will MCI's capital costs increase as a result of the merger?**

707 A. No. Verizon's much higher credit rating will help MCI overcome its reduced
708 rating resulting from the WorldCom bankruptcy. As a result, MCI expects its
709 capital costs to decrease.

710 **Q. Will the merger add costs to MCI's Arizona operations?**

711 A. No. While there is very little overlap between MCI and Verizon operations in
712 Arizona, the merger will result in some general corporate overhead efficiencies
713 that MCI anticipates will reduce the costs of MCI's Arizona operations.

714 **Q. Will the merger result in a reduction in MCI's Arizona net income?**

715 A. No. In fact, the lower cost of capital and increased operating efficiencies should
716 have a positive effect on net income.

717 **Q. Has MCI been granted waivers of the Affiliated Interest Rules?**

718 A. Yes. In Decision No. 62702, the Commission granted limited waivers of those
719 rules to MCImetro Access Transmission Services, LLC, MCI WorldCom
720 Communications, Inc., MCI Network Services, Inc. and Teleconnect Long
721 Distance Services and Systems Company.

722 Q. **What about TTI National, Inc. and Intermedia Communications, Inc.?**

723 A. Their annual intrastate revenues in Arizona do not exceed \$1,000,000. It is my
724 understanding that, for this reason, they are not subject to the Affiliated Interest
725 Rules.

726 Q. **Does this conclude your testimony?**


727 A. Yes.

VERIFICATION

STATE OF South Carolina _____)
County of Beaufort _____) ss

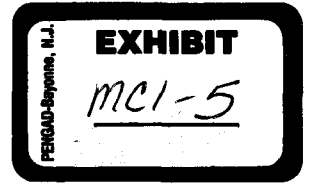
I, Michael A. Beach, do state under penalty of perjury that the factual information contained in my Direst testimony dated July 13, 2005, is true and correct to the best of my belief and knowledge.

Dated: July 12, 2005 _____



Michael A. Beach
Vice President – Carrier Management

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
MARC SPITZER
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE JOINT NOTICE
OF INTENT OF VERIZON
COMMUNICATIONS, INC., AND MCI,
INC.

DOCKET NOs: T-01846B-05-0279
T-03258A-05-0279
T-03475A-05-0279
T-03289A-05-0279
T-03198A-05-0279
T-03574A-05-0279
T-02431A-05-0279
T-03197A-05-0279
T-02533A-05-0279
T-03394A-05-0279
T-03291A-05-0279

REBUTTAL TESTIMONY OF MICHAEL A. BEACH
ON BEHALF OF MCI, INC.

SEPTEMBER 9, 2005

PUBLIC VERSION

21 **Q. What are your name, business address and current position with MCI?**

22

23 A. Michael A. Beach. My business address is 6415 Business Center Drive,
24 Highlands Ranch, Colorado 80130. I am Vice President – Carrier Management
25 for MCI.¹

26 **Q. Are you the same Michael A. Beach who filed direct testimony in these**
27 **proceedings on July 13, 2005?**

28 A. Yes, I am.

29 **Q. What is the purpose of your rebuttal testimony?**

30 A. I will respond to certain issues raised by staff witnesses Elijah Abinah and
31 Armando Fimbres regarding MCI's Arizona-regulated subsidiaries and certain
32 conditions that they recommend be imposed as part of the Commission's approval
33 of this transaction.

34 **Q. What issues do Staff witnesses raise regarding MCI?**

35 A. Mr. Abinah's testimony raises two particular issues involving MCI subsidiaries.
36 These issues involve:

- 37 1. the legal status of Telecom USA; and
38 2. an automobile accident that occurred in 2003.

39 Mr. Fimbres addresses another matter to which I will respond, that being MCI's
40 use of telephone numbering resources in Arizona.

41 **Q. What is MCI's reaction to the specific recommendations of the Staff**
42 **witnesses?**

¹ MCI, Inc. identifies the holding company. I use "MCI" for ease of reference throughout this testimony to refer to the collective MCI operating companies.

43 A. MCI will comply with the recommendations that Staff makes relating to
44 Telecom*USA and MCI's use of telephone numbers. The other condition
45 suggested by Mr. Abinah, which relates to an automobile accident, is not
46 necessary as described below and should not be ordered by the Commission.

47 **Q. Mr. Abinah asserts that Telecom*USA is not in good standing. Is he correct?**

48 A. No. Telecom*USA is not a stand-alone legal entity. Rather, it is merely a "dba"
49 for Teleconnect Long Distance Services and Systems Company ("Teleconnect").
50 It is not a separate corporation or otherwise distinct from Teleconnect.
51 Teleconnect has filed all annual reports as required. Attached hereto as Exhibit 1
52 is Teleconnect's 2004 Annual Report that was properly and timely filed with the
53 Commission. Mr. Abinah is correct that apparently Teleconnect has not
54 registered its "dba" of Telecom*USA with the Arizona Secretary of State.
55 Teleconnect is in the process of registering its "dba" of Telcomm*USA and will
56 complete the registration as requested. Attached hereto as Exhibit 2 is a copy of
57 Teleconnect's application seeking to register its "dba."

58 **Q. What is MCI doing with respect to its telephone numbering resources?**

59 A. Mr. Fimbres questions whether MCI is fully utilizing the telephone numbers that
60 it has been assigned in Arizona. Based on his evaluation, he recommends that
61 MCI review its numbering resources in three NPAs, 480, 602 and 623. MCI
62 agrees that such a review is appropriate, and it is commencing a review of its
63 number resources in those areas. Once we complete that review, MCI will,
64 consistent with industry guidelines, return to the numbering administrator any
65 number blocks that are not needed and are not contaminated.

66 **Q. Does MCI agree with Mr. Abinah that it should be required to provide**
67 **further reports about the car accident that occurred in 2003?**

68 A. No. Upon further investigation, MCI has determined that the individual involved
69 in the automobile accident cited by Mr. Abinah was employed by Skytel, a
70 subsidiary of MCI, Inc. that provides paging services that are not regulated by this
71 Commission. Because Skytel is not a certificated carrier and does not provide
72 services regulated by this Commission, the company is not subject to the rules
73 referenced by Staff, and was not required to file a report pursuant to A.A.C. R14-
74 2-101(A), as Staff's testimony suggests. Accordingly, this condition is no longer
75 necessary.

76 **Q. Does this conclude your testimony?**

77 A. Yes.

EXHIBIT 1

**REDACTED
(HIGHLY CONFIDENTIAL)**

EXHIBIT 2

Office Use _____

Please mail Registration to:
Secretary of State Jan Brewer / Trade Name Division
1700 West Washington 7th Fl. Phoenix, Arizona 85007
Walk-in service: 14 N. 18th Ave., Phoenix, Arizona
Tucson Office: 400 W. Congress, Ste. 252
(602) 542-6187
(800) 458-5842 (within Arizona)
Filing Fee: \$10.00



APPLICATION FOR REGISTRATION OF TRADE NAME
(A.R.S. §44-1460)

The Registration of Trade Names and Trademarks is not legally required in Arizona, but is an accepted business practice. This is a registration for an Arizona Trade Name only in accordance with A.R.S. §44-1460. The registration of a trade name is a public record and does not constitute exclusive rights to the holder of the name. Names with a corporate ending (e.g., Inc., LLC or Ltd.) are not acceptable.

Please clearly print or type your application to avoid registration errors.

Name, title or designation to be registered: TELECOM*USA

Name of Applicant(s): TELECONNECT LONG DISTANCE SERVICES AND SYSTEMS COMPANY
(If more than 1 applicant, an "or" designation is assumed unless otherwise indicated)

Your certificate and renewal notices are dependent on accurate address information including suite numbers. Remember to update your registration if you move.

Business Address: 22001 LOUDOUN COUNTY PARKWAY, ASHBURN, VIRGINIA 20147
Street or Box Number City State Zip
Phone (Optional): 703 886-4970

Applicant must check one. Do not select "Corporation" or "LLC" if you are not currently incorporated, or your application will be returned to you.

☐ Individual ☐ Foreign corporation licensed to do business in Arizona
☐ Partnership ☐ Association ☐ Organization
☒ Corporation ☐ LLC ☐ Other _____

The date in which the name, title or designation was first used by the applicant within this state. This date must be today's date or prior to today's date: SEPTEMBER 7 2005
Month Day Year

General nature of business conducted: COMMUNICATION

TELECONNECT LONG DISTANCE SERVICES

Applicant's Printed Name

AND SYSTEMS COMPANY

Applicant's Printed Name

State of Virginia
County of Stafford

Applicant's Signature

Stephen C. Ferguson Vice President

Applicant's Signature

Acknowledged before me on this 8th day of September, 2005

My Commission Expires January 31, 2009

Notary Public

IN THE MATTER OF THE JOINT NOTICE OF INTENT BY
VERIZON COMMUNICATIONS, INC. AND MCI, INC.,
ON BEHALF OF ITS REGULATED SUBSIDIARIES
Docket Nos. T-01846B-05-0279, et al.



Mr. McCallion will adopt the following:

Starting at:

Pg. 2, line 17 through pg. 5, line 3

Pg. 5, line 19 through pg. 7, line 7

Pg. 8, lines 3 through 18

Pg. 14, line 3 through pg. 19, line 3

Pg. 31, line 6 through pg. 34, line 2

Pg. 35, line 3, through pg. 41, line 2

(end of testimony)

Mr. Gordon will adopt the following:

Starting at:

Pg. 5, lines 4 through 18

Pg. 7, line 8 through pg. 8, line 2

Pg. 9, line 1 through pg. 14, line 2

Pg. 19, line 4 through pg. 31, line 5

Pg. 34, line 3 through pg. 35, line 2

)	Docket No.	T-01846B-05-0279
Joint Petition of)		T-03258A-05-0279
)		T-03475A-05-0279
Verizon Communications Inc., and)		T-03289A-05-0279
MCI, Inc.)		T-03198A-05-0279
)		T-03574A-05-0279
for Approval of Agreement and Plan)		T-02431A-05-0279
of Merger.)		T-03197A-05-0279
)		T-02533A-05-0279
)		T-03394A-04-0279
)		T-03291A-05-0279
)		

**DIRECT TESTIMONY OF
TIMOTHY J. MCCALLION**

1652210.1

OPENING TESTIMONY OF TIMOTHY J. MCCALLION

Q. Please state your title, business address and responsibilities.

A. I am employed by Verizon Corporate Services Group Inc. as President — Pacific Region. My business address is 112 South Lakeview Canyon Road, Thousand Oaks, California, 91362. My responsibilities include all corporate matters, regulatory affairs, governmental affairs, and community relations for Verizon California Inc.

Q. Please describe your background.

A. I hold an undergraduate degree in Business Management and a Master of Business Administration degree from Gannon University. I began my career with Verizon over 29 years ago in the accounting department of General Telephone Company of Pennsylvania. In the ensuing years, I continued working for the Company in various locations, including Ohio, Indiana, Hawaii, and GTE's former corporate headquarters in Stamford, Connecticut. In 1987, I became External Affairs Director for GTE California, Inc. and have assumed several positions of increasing responsibility since that time.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to describe Verizon's operations in Arizona. In addition, I describe how the transaction meets the criteria that the Commission established when it granted Verizon a waiver from the Affiliated Interest Rules set forth in Arizona Administrative Code ("A.C.C.") R14-2-803.

Q. Who else is submitting testimony on behalf of joint applicants?

A. Paul B. Vasington, Director of State Public Policy for Verizon, demonstrates that the transaction is in the public interest and satisfies the requirements of A.A.C. R14-2-803(C). He explains that the transaction will not impair the financial

1 status of the companies, prevent them from attracting capital at fair and reasonable terms,
2 or impair their ability to provide safe, reasonable and adequate service. Michael A.
3 Beach, Vice President – Carrier Management for MCI describes, from MCI's
4 perspective, how the merger between MCI and Verizon will promote a competitive
5 telecommunications marketplace with public interest benefits to Arizona customers,
6 while at the same time protecting and maintaining the wide availability of high-quality
7 telecommunications services at just and reasonable rates.

8 Q. Please describe Verizon's corporate structure.

9 A. Verizon Communications Inc. ("Verizon") is a corporation created and
10 existing under the laws of the State of Delaware. Its principal office is located at 1095
11 Avenue of the Americas, New York, New York 10036. Verizon directly or indirectly
12 owns telephone operating companies that provide telecommunications services on a
13 regulated and unregulated basis in 29 states, Puerto Rico and the District of Columbia,
14 serving 53 million access lines. Although Verizon provides no services and is not a
15 regulated telephone company within Arizona or elsewhere, its local telephone
16 subsidiaries are subject to public utility regulation in the jurisdictions in which they
17 operate. They are also subject to regulation by the Federal Communications Commission
18 ("FCC") for the services they provide pursuant to federal tariffs and federal law.
19 Verizon's domestic telecommunications services include the provision of exchange
20 telecommunications services, including switched local residential and business services,
21 local private line, voice and data services and Centrex services. Verizon subsidiaries also
22 provide intraLATA and interLATA toll and interexchange services, as well as exchange
23 access services, including switched access and special access services. These

1 subsidiaries provide wireline services to consumers, small and enterprise businesses and
2 to other communications carriers. Verizon's other domestic subsidiaries provide voice
3 and data wireless services, information services including directory publishing, and
4 electronic commerce. Verizon's international subsidiaries provide wireline and wireless
5 communications operations and investments.

6 In 2004, Verizon had annual operating revenues of approximately \$71 billion
7 nationwide. Stressing diversity and a commitment to the communities in which it
8 operates, Verizon has a highly diverse national workforce of 210,000 employees,
9 including approximately 1,450 employees in Arizona. Verizon has a strong balance sheet
10 and investment-grade credit rating and is a stable, viable enterprise.

11 Q. Please describe Verizon's operating entities in Arizona.

12 A. Verizon has five regulated entities in Arizona: Verizon California Inc.
13 (providing local exchange and related services); Verizon Select Services Inc. (licensed as
14 a competitive local exchange carrier, but not currently serving any customers); One Point
15 Communications-Colorado, LLC d/b/a Verizon Avenue (providing local and long
16 distance service as a competitive local exchange carrier to a small number of multi-
17 dwelling unit customers); Bell Atlantic Communications, Inc. d/b/a Verizon Long
18 Distance; and NYNEX Long Distance Company d/b/a Verizon Enterprise Solutions (both
19 providing long distance service to a variety of customers). Based on 2004 financial data,
20 only Verizon California has annual intrastate operating revenues in excess of \$1 million.
21 Each of the other entities has annual intrastate operating revenues substantially less than
22 \$1 million.

23 Q. Please describe Verizon California's operations.

1 A. Verizon California has approximately 8500 local exchange access lines in
2 the southwestern part of Arizona, in and around Parker, in La Paz County.
3 Approximately seventy percent of the lines are used to provide residential service.
4 Verizon California Inc. is the second largest local exchange company in California,
5 serving over 4.3 million switched access lines primarily in southern California, as well as
6 over 40,000 access lines in northwestern Nevada.

7 Q. Has the Commission previously granted any waiver of the Affiliated
8 Interest Rules to Verizon California?

9 A. Yes. On July 1, 2005, Applicants filed their Second Amendment to
10 Notice of Intent in order to identify for the record several waivers of the Affiliated
11 Interest Rules this Commission has issued over the years for Verizon and its
12 predecessors. As explained in more detail in that Amendment, Contel of California, Inc.
13 (the predecessor of Verizon California) was granted a limited waiver of the Affiliated
14 Interest Rules in March 1993. That waiver required Contel of California to file a Notice
15 of Intent with this Commission regarding any transaction subject to the Affiliated Interest
16 Rules only for those transactions which were likely to result in: (1) significant increased
17 capital costs to the Arizona operations, (2) significant additional costs allocated or
18 charged directly to the Arizona jurisdiction, or (3) significant reduction of net operating
19 income of the Arizona jurisdiction.

20 Subsequently, when GTE merged with Bell Atlantic, the Commission's Chief
21 Counsel opined that Commission approval was not required in part because the limited
22 waiver described above, and a similar one previously granted to Bell Atlantic
23 Corporation, relieved the companies of any obligation to seek Commission approval for

1 that merger. That opinion also noted that, by not seeking Commission approval for the
2 GTE-Bell Atlantic merger, the companies were representing that the three waiver
3 conditions outlined above were satisfied.

4 Q. Were those three conditions satisfied in the GTE-Bell Atlantic merger?

5 A. Yes. In the five years since that merger was consummated, Verizon
6 California Inc. has provided high quality services to its small number of Arizona
7 customers and has done so efficiently. Its operations are financially sound. Verizon's
8 small rural local exchange operations in Arizona are part of a strong subsidiary of a
9 financially sound and successful national company.

10 Q. Is the pending transaction with MCI likely to significantly increase capital
11 costs to the Arizona operations?

12 A. No. Verizon obtains capital as a national company, and the 8,500 lines in
13 Arizona represent only a tiny fraction of a percentage of Verizon's lines nationwide. The
14 transaction with MCI at the parent company level is being entered into in order to take
15 advantage of the complementary strengths of both companies. The combination will
16 respond forcefully to the convergence of technologies, products, and services in the
17 communications industry by creating a company with the financial strength,
18 infrastructure, geographic reach, technological depth, and managerial and operational
19 expertise to be a strong competitor in the rapidly changing communications marketplace.
20 This transaction is not likely to significantly increase the cost of capital to the Arizona
21 operation, but rather is intended to strengthen the company as a whole.

22 Q. Is the pending transaction with MCI likely to significantly increase costs
23 allocated or charged directly to the Arizona jurisdiction?

1 A. No. The primary expected benefit is the enhanced ability of the combined
2 company to generate additional revenues from increased sales to new and existing
3 enterprise customers. Allowing MCI and Verizon to use one another's strengths to
4 become a stronger competitor in the evolving, increasingly intermodal, communications
5 industry will bring long-term benefits to customers nationwide. Developments such as
6 this will are not likely to significantly increase costs charged to the Arizona jurisdiction.

7 Q. Is the pending transaction with MCI likely to lead to a significant
8 reduction of net operating income of the Arizona jurisdiction?

9 A. No. For the same reasons discussed above, this transaction is not likely to
10 significantly reduce net operating income in Arizona.

11 Q. Is Verizon asking this Commission to grant it a waiver for purposes of this
12 transaction?

13 A. Verizon believes that the Commission should consider its prior waivers
14 and their impact when it issues a decision regarding this transaction. However, Verizon
15 and MCI have provided evidence that demonstrates that the merger is in the public
16 interest and should be approved regardless of whether the existing waivers are honored.

17 Q. Does this conclude your opening testimony?

18 A. At this time, yes.

19

20

EXHIBITVZ-3

PERIOD-Bygone, N.J.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
 WILLIAM A. MUNDELL
 MARC SPITZER
 MIKE GLEASON
 KRISTIN K. MAYES

IN THE MATTER OF THE JOINT NOTICE
 OF INTENT OF VERIZON
 COMMUNICATIONS, INC., AND MCI,
 INC., ON BEHALF OF ITS REGULATED
 SUBSIDIARIES

DOCKET NOs: T-01846B-05-0279

T-03258A-05-0279

T-03475A-05-0279

T-03289A-05-0279

T-03198A-05-0279

T-03574A-05-0279

T-02431A-05-0279

T-03197A-05-0279

T-02533A-05-0279

T-03394A-05-0279

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VERIZON COMMUNICATIONS INC.

REBUTTAL TESTIMONY OF

TIMOTHY J. MCCALLION

Dated: September 9, 2005

REBUTTAL TESTIMONY OF TIMOTHY J. MCCALLION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Timothy J. McCallion. I am employed by Verizon Corporate Services Group Inc. as President, Pacific Region. My business address is 112 S. Lakeview Canyon Road, Thousand Oaks, California, 91362.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond on behalf of Verizon Communications Inc. and its subsidiaries that provide communications services in Arizona (collectively, "Verizon") to the testimony filed by the Arizona Corporation Commission Staff ("Staff") and to further support the Joint Notice of Intent filed on April 13, 2005 by Verizon and MCI, Inc. ("Joint Notice"), as amended on May 6, 2005. Specifically, I address the conditions Staff has recommended and four discrete issues on which Staff requested additional information. Mr. Michael Beach of MCI is also filing rebuttal testimony that will respond on MCI's behalf to Staff's testimony and to Staff's requests for specific information.

Q. STAFF PROVIDED INFORMATION REGARDING APPROVALS OF THE VERIZON/MCI TRANSACTION IN OTHER STATES. DO YOU HAVE ANY ADDITIONAL INFORMATION REGARDING THE STATUS OF THOSE APPROVALS?

A. Yes. In addition to the states Staff has identified, the states of Georgia, Delaware, North Carolina, Mississippi, Louisiana, New Hampshire, Tennessee, and Wyoming have now approved the transaction.

1 Q. DO YOU HAVE ANY GENERAL COMMENTS ON STAFF'S TESTIMONY?

2 A. Verizon was pleased that after a careful evaluation of the effects of its acquisition of MCI
3 on Arizona consumers and competition, and consideration of the criteria for evaluating
4 acquisitions under Arizona law, Staff concluded that the transaction is in the public
5 interest and should be approved by the Commission. Staff correctly recognized that
6 Verizon's acquisition of MCI will benefit both companies' customers, employees, and
7 investors by creating a financially stronger combined company with more resources and
8 capabilities than either company would have standing alone.

9
10 Q. STAFF RECOMMENDS THAT THE COMMISSION CONDITION ITS
11 APPROVAL OF THE TRANSACTION (SEE ABINAH TESTIMONY AT 30-32,
12 FRIMBRES TESTIMONY AT 21-22). PLEASE COMMENT ON THOSE
13 PROPOSED CONDITIONS.

14 A. Verizon and MCI believe that the conditions proposed by Staff are unnecessary.
15 Nonetheless, they understand that the Commission and Staff may have some concerns and
16 will consent to the proposed conditions as explained or clarified below. Verizon also
17 agrees with Staff that issues related to waivers of the Affiliate Interest Rules are better
18 addressed in a separate docket.

19 Q. YOU MENTIONED NEEDING TO EXPLAIN OR CLARIFY A FEW OF STAFF'S
20 PROPOSED CONDITIONS. WHICH ONES ARE THOSE?

21 A. Verizon will address the information it has provided under AAC R14-2-803, and its
22 registration of d/b/a notifications for Verizon Enterprise Solutions, its long distance
23 affiliate. In addition, Verizon clarifies in these comments that the Commission's open
24 docket on Customer Proprietary Network Information ("CPNI") by affiliates and third
25 parties should be controlling; therefore, no special conditions on CPNI should be or need
26 to be adopted in this proceeding.

1 **Q. HAS VERIZON PROVIDED THE INFORMATION THAT STAFF REQUESTED,**
2 **NAMELY, THE NAMES AND BUSINESS ADDRESS OF VERIZON AND MCI**
3 **OFFICERS AND DIRECTORS AND ANY RELEVANT DOCUMENTS AND**
4 **FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC")**
5 **AND OTHER STATE AND FEDERAL AGENCIES?**

6 **A.** Yes. On September 8, 2005, Verizon supplemented the Joint Notice it filed with MCI to
7 provide (1) the names, titles, and business addresses of the officers and directors of ELI
8 Acquisition, LLC, and (2) MCI's August 31, 2005 Proxy Statement and Prospectus, as
9 submitted to the SEC. Staff proposed that Verizon provide this information as a
10 requirement of AAC R14-2-803 and as a condition for Commission approval of the
11 transaction.

12 **Q. CAN YOU RESPOND TO STAFF'S STATEMENT THAT THERE IS NO**
13 **REGISTRATION OF A DBA NAME FOR VERIZON ENTERPRISE SOLUTIONS**
14 **IN THE CORPORATIONS SECTION OF THE COMMISSION?**

15 **A.** Yes. Verizon filed documents entitled "Certificate of Corporation Doing Business Under
16 a Fictitious Name Pursuant to Provisions of A.R.S. 44-1236" in all counties in Arizona
17 where Verizon offers services. Those filings state that NYNEX Long Distance Company,
18 the Verizon affiliate that provides long distance services in Arizona, does business under
19 the name Verizon Enterprise Solutions. Verizon has filed those documents into this
20 docket and provided copies to Staff.

21 **Q. PLEASE RESPOND TO STAFF'S RECOMMENDATIONS THAT VERIZON/MCI**
22 **CLEC AND LONG DISTANCE AFFILIATES BE PERMITTED TO USE**
23 **VERIZON CALIFORNIA CPNI ONLY TO THE EXTENT THAT THIRD**
24 **PARTIES ARE ALLOWED TO USE VERIZON CALIFORNIA CPNI.**

25 **A.** Verizon believes that this issue, just like the issue of waiver of Affiliate Interest Rules, is
26 best handled outside of this docket. The Commission has a pending rulemaking docket to
consider the use of CPNI, and Verizon will be subject to the final outcome of that
rulemaking. Because the issues surrounding the use of CPNI are very complicated, and
involve numerous business and legal considerations, Verizon believes they should be

1 decided in the rulemaking in Docket No. RT-00000J-02-0066, where they can be fully
2 briefed and considered. Verizon also believes that it would be inappropriate for the
3 Commission to impose CPNI rules on Verizon as a condition in this proceeding that are
4 different from the final CPNI rules that are adopted as a result of the pending rulemaking
5 – rules that will then apply to other carriers.

6 **Q. CAN YOU RESPOND TO STAFF'S REQUEST THAT VERIZON PROVIDE**
7 **MORE DETAILS ON THE MERGER?**

8 **A.** Yes. In their direct testimony, Staff asked Verizon to provide additional information on
9 four issues: (1) its commitment to invest \$2 billion in MCI's network; (2) the possibility
10 that the merger will result in rate increases; (3) the merger synergies identified by
11 Verizon; and (4) benefits to mass market customers resulting from the merger. I address
12 each of these issues below.

13 **Q. VERIZON WITNESS VASINGTON (TESTIMONY AT 6) TESTIFIES THAT**
14 **VERIZON HAS COMMITTED TO INVEST \$2 BILLION TO ENHANCE MCI'S**
15 **NETWORK AND SYSTEMS, INCLUDING MCI'S INTERNET PROTOCOL**
16 **("IP") BACKBONE. PLEASE RESPOND TO STAFF'S REQUEST THAT**
17 **VERIZON WITNESSES PROVIDE "WHATEVER FURTHER INFORMATION**
18 **THEY MAY HAVE ON THE INVESTMENTS IMPACT ON THE ARIZONA**
19 **MARKET."**

20 **A.** Verizon has committed to a \$2 billion capital investment in MCI's network and
21 information technology platforms over the next four years. Because Verizon and MCI
22 have not engaged in post-transaction planning, they have not identified precisely where
23 those investments will be made, including whether any will be made in Arizona. Verizon
24 made this commitment because it recognized that MCI's nationwide IP backbone is a
25 critical national asset; among other things, MCI provides critical network infrastructure
26 for both civilian agencies and the Department of Defense. The merger will enhance the
financial stability of these important assets.

1 Q. WILL THE TRANSACTION RESULT IN AN INCREASE IN RATES?

2 A. No rate increases are contemplated as a result of the transaction. This is a parent company
3 transaction that should have little or no effect on Verizon's or MCI's operating
4 subsidiaries in Arizona, including on their rates, terms, and conditions of services.

5 Q. STAFF ALSO REQUESTS ADDITIONAL INFORMATION "ON THE
6 SYNERGIES EXPECTED FROM THE MERGER WHICH LEAD TO THE
7 COMPANIES' CLAIMS OF REDUCED COSTS TO CONSUMERS." PLEASE
8 EXPLAIN THE BASIS FOR PETITIONERS' COST REDUCTION ESTIMATES.

9 A. The synergy analyses underlying the merger savings estimates are based on the merged
10 company's taking a variety of steps to reduce costs. Among the planned cost savings
11 efforts are the elimination of certain duplicative staff, primarily in support functions such
12 as network engineering, IT, legal, sales, and human resources. MCI and Verizon have not
13 engaged in state-specific post-transaction planning, however, and have not identified
14 where reductions in force may be appropriate. Nevertheless, it is safe to assume that
15 there will be minimal impact in jurisdictions such as Arizona where there are few, if any,
16 overlapping facilities and centralized functions.

17 The cost reduction estimates also assume that the combined company will be able to
18 reduce information technology costs by modernizing outdated systems and re-engineering
19 other redundant information and operational systems and processes. In addition, the
20 combined company is expected to achieve savings by using existing network capacity to
21 migrate long distance traffic, which Verizon today transports over third-party networks,
22 onto the network of the combined company.

23 The cost savings figures were developed by the Verizon teams that performed the MCI
24 due diligence and will be responsible for plan execution. These financial efficiencies will
25 allow the new combined company to improve service quality and accelerate the
26 development and offering of new services.

1 In prior mergers of significant size and scale, such as the merger of Bell Atlantic and
2 NYNEX and Bell Atlantic and GTE, Verizon has successfully merged various entities on
3 a national scale and attained synergy savings. There is every expectation that we will be
4 similarly successful in this venture.

5
6 **Q. PLEASE RESPOND TO STAFF'S REQUEST FOR INFORMATION ON
7 WHETHER AND HOW THE TRANSACTION WILL BENEFIT MASS MARKET
8 LOCAL EXCHANGE CUSTOMERS.**

9
10 **A.** Staff correctly recognizes that the transaction is primarily about enhancing the combined
11 company's ability to compete in the large business and government segment. The
12 combination of Verizon's and MCI's complementary assets and expertise, together with
13 the added investment that Verizon has committed to make to MCI's network and systems,
14 will strongly promote the public interest. Large enterprise customers will benefit from the
15 creation of a strong and stable new facilities-based competitor that will be capable of
16 providing a full range of communications services to large business and government
17 customers nationwide. Mass market customers, in turn, may benefit from new Internet
18 access services developed by the combined company and from more efficiently integrated
19 long distance services. Although the transaction creates a stronger competitor for large
20 business and government customers, the advanced network facilities and products may,
21 over time, become accessible to mass market customers. The Internet is an example of
22 how a technology deployed for government use can become widely accessible to mass
23 market consumers. Other examples of successful adaptation of communications products
24 targeted for enterprise customers are wireless phones, Voice over Internet Protocol
25 calling, and wireless Personal Digital Assistants.

26 **Q. DO YOU HAVE ANY FURTHER COMMENTS FOR THE RECORD?**

A. Yes. As Staff recognized, the merger of Verizon and MCI is in the public interest and
will provide benefits to their customers, employees, and shareholders. The operations of

1 Verizon's and MCI's operating companies in Arizona will not be changed as a result of
2 the merger. Indeed, the legal status of Verizon's and MCI's regulated subsidiaries in
3 Arizona will remain unchanged following the transaction, and these companies will
4 remain subject to the Commission's authority to the same extent as before. The
5 transaction will not adversely affect the rates or quality of service of the regulated Verizon
6 and MCI subsidiaries. To the contrary, the greater resources of Verizon following the
7 acquisition will enhance the combined company's ability to provide a full array of
8 competitively-priced, high quality services and products in a dynamic communications
9 market where wireless and broadband services are rapidly replacing the use of traditional
10 wireline services. Verizon therefore respectfully requests that the Commission move
11 quickly to approve the transaction in Arizona.

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

13 **A.** Yes. Thank you.
14

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)	Docket No.	T-01846B-05-0279
Joint Petition of)		T-03258A-05-0279
)		T-03475A-05-0279
Verizon Communications Inc., and)		T-03289A-05-0279
MCI, Inc.)		T-03198A-05-0279
)		T-03574A-05-0279
for Approval of Agreement and Plan)		T-02431A-05-0279
of Merger.)		T-03197A-05-0279
)		T-02533A-05-0279
)		T-03394A-04-0279
)		T-03291A-05-0279
)		

PAUL B. VASINGTON

1652253.1

1

INTRODUCTION AND BACKGROUND

2 **Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

3 A. My name is Paul B. Vasington. I am a Director of State Public Policy with Verizon and
4 my office is at 185 Franklin Street, Boston, MA 02110.

5 **Q. PLEASE SUMMARIZE YOUR BACKGROUND AND QUALIFICATIONS.**

6 A. Prior to joining Verizon, I was a Vice President with Analysis Group, Inc., where I was
7 an expert consultant in the telecommunications and energy industries. I provided reports
8 for private telephone and electric companies, government agencies, and international
9 clients. I worked on various projects, including alternative regulation, business valuation,
10 regulatory principles, business strategy assessments, policy research on taxation, and
11 development of policy for new technologies. I have also been a witness before state
12 commissions in Vermont, Maine, Delaware, New Hampshire, Pennsylvania, and New
13 Jersey.

14 Before joining Analysis Group, I was a member of the Massachusetts Department of
15 Telecommunications and Energy ("DTE"), serving as Chairman from May 2002 through
16 August 2003, and as a Commissioner from 1998 through May 2002. While serving on
17 the DTE, I gained extensive experience in the regulation of rates and conditions of
18 service of the telecommunications, cable television, electric power, natural gas, pipelines,
19 water, and transportation industries in the Commonwealth of Massachusetts.

1 During my tenure on the DTE, I was a member of several organizations focused on
2 regulatory policy. I served as the Chairman of the Massachusetts Energy Facilities Siting
3 Board. I was a member of the National Association of Regulatory Utility Commissioners
4 (NARUC), where I served on the Telecommunications Committee, and taught courses as
5 a faculty member of the Annual Regulatory Studies Program. I was Vice President of the
6 New England Conference of Public Utilities Commissioners (NECPUC), where I served
7 as Chairman of the Telecommunications Committee. And, I was a member of the Board
8 of Directors of the National Regulatory Research Institute at Ohio State University.

9 From 1990 through 1996, I was in the DTE's Telecommunications Division, first as a
10 staff Economist and then as the division's Director. I left the DTE in 1996 and joined
11 National Economic Research Associates, Inc., where, from 1996 to 1998, I was a Senior
12 Analyst consulting with telecommunications and other utility companies.

13 I have a master's degree in Public Policy from Harvard University's John F. Kennedy
14 School of Government and graduated *magna cum laude* from Boston College, where I
15 obtained my bachelor's degree in Political Science. My complete resume is attached as
16 Exh. PBV-1.

17 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
18 **PROCEEDING?**

19 **A.** The purpose of my testimony is to explain why as a matter of sound public policy the
20 proposed merger of MCI, Inc. ("MCI") and Verizon Communications Inc. ("Verizon")
21 should be approved by the Arizona Corporation Commission (the "ACC" or the
22 "Commission"). Verizon and MCI are holding companies with subsidiaries that provide

1 services in Arizona.¹ MCI and Verizon have entered into an Agreement and Plan of
2 Merger, under which MCI will become a wholly-owned subsidiary of Verizon. In
3 considering a transaction pursuant to A.A.C. R14-2-803(C), the Commission evaluates
4 whether the transaction "would impair the financial status of the public utility, otherwise
5 prevent it from attracting capital at fair and reasonable terms, or impair the ability of the
6 public utility to provide safe, reasonable and adequate service." The ACC has referred to
7 this as the "minimum standard."² The ACC also may evaluate the transaction pursuant to
8 its constitutional duty to determine whether the transaction is in the public interest, the
9 "scope and breadth" of which is influenced by the "individual circumstances of each
10 case."³ Whether the ACC decides to evaluate the proposed merger of Verizon and MCI
11 under the minimum standard, or whether it broadens its evaluation, it should find that the
12 proposed merger of MCI with Verizon: will not impair the financial status of the
13 companies; will not prevent them from attracting capital at fair and reasonable terms; will
14 not impair their ability to provide safe, reasonable and adequate service; will enhance the
15 companies' abilities in these areas; and likely will provide benefits to Arizona customers.

¹ As holding companies, neither Verizon nor MCI provide services to customers in Arizona or elsewhere; such services are provided by their various regulated and unregulated subsidiaries. For ease of reference, however, in this testimony, when speaking about services provided in Arizona, references to the parent companies are intended to include references to their subsidiaries operating in the state.

² Decision No. 67454, p. 28.

³ The circumstances that caused the ACC to broaden its recent inquiry into other proposed reorganizations are not present in this case. *See* Decision No. 67454, p. 29. Of particular note here is the fact that Verizon's incumbent local exchange carrier ("ILEC") subsidiary has very limited operations in Arizona. Both MCI and Verizon have limited operations in the state overall, particularly when compared to other companies providing communications services, such as Qwest. In addition, the Verizon-MCI merger is subject to significant review by both the Federal Communications Commission ("FCC") and the United States Department of Justice ("DOJ"), both of which are undertaking thorough reviews. All of these facts suggest that the ACC need not go beyond the minimum standard in evaluating this proposed transaction.

1 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

2 A. The ACC should analyze the transaction in light of the dramatic changes in
3 communications technology and competition that have already transformed the
4 communications industry and that will likely continue to bring even greater changes in
5 the future. This transaction is a positive response to industry convergence and the
6 substantial intermodal competition such convergence has created. The merger of Verizon
7 and MCI is part of a much broader restructuring of the industry around new technologies,
8 new services and new providers. The creation of a strong new competitor for enterprise
9 customers nationwide and here in Arizona will spur new investment in communications
10 infrastructure and promote the public interest. Given that the transaction will not impair
11 the financial status of the companies, prevent them from attracting capital at fair and
12 reasonable terms, or impair their ability to provide safe, reasonable and adequate service,
13 it satisfies the requirements of A.A.C. R14-2-803(C), is in the public interest, and should
14 be approved by the ACC.

15 **Q. PLEASE EXPLAIN IN MORE DETAIL HOW THE MERGER WILL RESULT IN**
16 **BENEFITS.**

17 A. The Verizon and MCI subsidiaries operating in Arizona today will continue to operate
18 after the transaction as before. The Verizon-MCI Agreement and Plan of Merger (the
19 "Agreement") does not call for the merger of any assets, operations, lines, plants,
20 franchises or permits of MCI's regulated subsidiaries with the assets, operations, lines,
21 plants, franchises or permits of any Verizon entity. Nor does the Agreement call for any
22 change in the rates, terms or conditions for the provision of any communications services
23 provided in Arizona. Any such changes that might be made at a later date will be made

1 in accordance with all applicable regulatory rules and requirements. Under the
2 circumstances, the transaction will not harm ratepayers or impair either company's ability
3 to provide safe and adequate service at just and reasonable rates.⁴

4 Nor will the transaction harm competition in the state. This is so for several reasons. It
5 should first be noted that Verizon and MCI bring complementary assets to the
6 transaction. For example, in Arizona, there is no overlap in the facilities deployed by
7 MCI with those deployed by Verizon, and Verizon and MCI have very different relative
8 strengths and their service mixes complement each other.. Verizon offers wireless
9 services and MCI does not. While MCI's relative strengths are in the provision of
10 services to large enterprise customers and the operation of an IP-backbone, Verizon has a
11 relatively small share of the large enterprise segment, both nationwide and particularly in
12 Arizona. Similarly, while Verizon's strengths are in the provision of services to
13 residential and small business customers, MCI's mass market business is in a continuing
14 and irreversible decline. Indeed, as discussed in the accompanying testimony of Michael
15 Beach, MCI's current business plan is to manage the decline of that business, so that MCI
16 would not be a significant competitor in the Arizona mass market in the absence of this
17 transaction. In short, the transaction will not harm competition for mass market or
18 enterprise customers.

19 The proposed merger of Verizon and MCI will benefit both companies and their current
20 and prospective customers. The transaction enhances Verizon's current strengths in the

⁴ Nor should the ACC be concerned that an increase in rates will result from completion of the transaction. Rates in a competitive environment, such as exists in Arizona, are a function of market forces which will continue unabated after the merger is completed for the reasons stated above.

1 local service and wireless markets with the capability to better address the large
2 enterprise segment of the market. In addition, MCI's nationwide transmission backbone
3 will supplement Verizon's local, wireless and broadband networks. The merger will
4 allow MCI to capitalize on its core strengths – its large enterprise business, its extensive
5 network in the large enterprise sector, and its Internet backbone – by teaming with a
6 company that needs those assets and will invest in them.

7 Customers will also benefit from this transaction as it will enable Verizon and its
8 subsidiaries to better meet the needs of large enterprise customers, including federal and
9 state government agencies. As I discuss later in this testimony, because of the complex
10 needs of such customers, neither MCI nor Verizon, standing alone, can be as effective at
11 serving the enterprise segment as the merged company will be.

12 In addition, the merger should deliver benefits to customers of all types in the form of
13 competitive prices, network improvements, and the enhanced ability for customers to
14 purchase all of their communications needs from a single supplier. Further, Verizon has
15 already committed to investing \$2 billion in enhancing MCI's network and systems,
16 including MCI's Internet Protocol ("IP")-based backbone, which will also benefit
17 customers that rely on the services that such networks and systems enable.

18 **Q. CAN THE COMMISSION BE CONFIDENT THAT THE COMPANIES WILL**
19 **DELIVER THESE BENEFITS?**

20 **A.** Yes. Verizon was created through a series of mergers of substantial scale (such as
21 between Bell Atlantic and NYNEX, and subsequently Bell Atlantic and GTE), which

1 were executed effectively and efficiently. Verizon also is a majority partner with
2 Vodafone in Verizon Wireless — itself a product of various mergers and one of the most
3 successful wireless businesses in the country. This experience should give the ACC
4 confidence in the ability of Verizon management to implement the transaction without
5 disruption to ongoing operations and financial status, to manage MCI as a successful
6 subsidiary, and to deliver the anticipated efficiencies and customer benefits of this
7 transaction.

8 **Q. WILL THE PROPOSED MERGER HARM COMPETITION?**

9 A. No. Although adverse effects on competition are a potential concern in any proposed
10 merger, this transaction will not adversely impact competition in communications, either
11 nationally or in Arizona, as I will discuss later in more detail. I reach this conclusion for
12 several reasons, including the extensive inter-modal competition already present both
13 nationally and in Arizona; the growth of such competition going forward; the lack of a
14 strong Verizon presence in the large enterprise market segment; the irreversible decline in
15 MCI's mass-market businesses; and the generally complementary, rather than
16 competitive, nature of the core services that the Verizon and MCI subsidiaries currently
17 provide.

18 As a threshold matter, it is important to note that the services provided by Verizon
19 California in Arizona encompass approximately 8000 lines — less than 3/10 of one percent
20 of the conventional (ILEC + CLEC) wireline access lines in Arizona. When wireless and

1 high speed lines are included, Verizon's ILEC lines are only about 1/10 of one percent of
2 the total lines in service.⁵

3 **Q. WILL THERE BE ANY ADVERSE IMPACT FROM THE MERGER?**

4
5 **A.** No. As noted above, the Verizon-MCI Agreement requires no change in the operations
6 of the Arizona regulated subsidiaries; in particular, there is no change contemplated with
7 respect to the terms and conditions of service; service quality; customer service; the
8 quality of facilities; the rate of investment; the companies' corporate affiliate transaction
9 guidelines and policies; and their respective commitments to their customers and to their
10 communities. To the contrary, the transaction will greatly enhance the abilities that both
11 Verizon and MCI now possess as stand-alone companies to provide a comprehensive
12 suite of services to consumers, businesses and government customers. Moreover, the
13 transaction will not affect the ACC's regulatory authority over the companies, because
14 the state-regulated MCI and Verizon business units will retain whatever regulatory
15 certificates and obligations they currently have.

16 For all of these reasons, I conclude that the transaction will affirmatively provide benefits
17 and will not adversely affect competition, rates, financial status, or ability to attract
18 capital in Arizona and should be approved as proposed.

⁵ These calculations are based on internal Verizon data and data from the FCC, Local Telephone Competition: Status as of December 31, 2004, Tables 8, 9 and 13 and FCC, High-Speed Services for Internet Access: Status as of December 31, 2004, Table 8.

1 THE MERGER IS PART OF A MUCH BROADER RESTRUCTURING
2 OF THE INDUSTRY AROUND NEW TECHNOLOGIES, NEW SERVICES AND
3 NEW PROVIDERS.

4 **Q. YOU SAID THAT THIS MERGER IS A RESPONSE TO NEW**
5 **TECHNOLOGIES, NEW SERVICES, AND NEW PROVIDERS. WHAT DO YOU**
6 **MEAN WHEN YOU USE THOSE TERMS?**

7 **A.** The transformation of the communications industry is the result of sweeping changes in
8 technology. The deployment of digital, two-way, broadband capabilities, along with the
9 growth of IP-based technologies, has finally brought about the long-anticipated
10 "convergence" among once-separate networks and providers. Wireline voice, data, cable,
11 wireless, and satellite networks are all now capable of delivering more and better voice,
12 data, and video services. Telephone networks originally were built to transmit a voice
13 signal from one place to another, but networks now are being optimized to deliver data,
14 rather than voice, such that voice is just an adjunct to some data services. Enterprise and
15 mass-market customers alike have adopted these new technologies and services and
16 increasingly use them both along with, and in place of, traditional wireline offerings.

17 **Q. HOW HAVE THESE CHANGES AFFECTED CUSTOMERS?**

1 A. These new technologies have produced new services that have changed the way people
2 communicate and the way that they purchase their communications services. Customers
3 at home and at work often communicate using e-mails and instant messages from their
4 computers or personal digital assistants (PDAs) instead of making traditional phone calls.
5 And when customers do need to make a voice call, they are increasingly turning to their
6 wireless phones.

7 The growth of broadband networks and services also has had an impact on
8 communications. For example, some customers are replacing wireline phones with
9 broadband connections, which can be used to provide a range of voice over Internet
10 protocol (VoIP) services. Customers are using their various wireline and wireless
11 devices not only to make voice calls and send messages, but also to share multimedia
12 files, such as photos, video clips, music and documents. E-mail and instant messages are
13 more numerous than voice calls, and many of the former now substitute for the latter.

14 **Q. HOW HAVE COMMUNICATIONS COMPANIES ADAPTED TO THESE NEW**
15 **CUSTOMER EXPECTATIONS?**
16

17 A. Communications companies of all varieties — wireline, cable, wireless, and VoIP alike
18 — have adapted to and accelerated these changes by offering “any time, any distance”
19 calling plans and bundles of services that reflect this new reality and at prices that would
20 have seemed implausible just a few years ago. Companies that were never in the
21 telecommunications business are now thriving competitors in the communications
22 business.

1 **Q. THIS BROAD RESTRUCTURING MUST INCLUDE CHANGES TO**
2 **NETWORKS. PLEASE DESCRIBE SUCH CHANGES.**

3 A. The most important change to networks is the ability to seamlessly carry both voice and
4 data traffic as digital bits. At a technological level, there is no distinction between voice
5 and data traffic because digital networks convert both voice and data into
6 indistinguishable digitized bits. To remain competitive, companies must replace,
7 upgrade, expand and develop their networks to meet customer demands for efficient,
8 competitively-priced voice and data delivery services.

9 **Q. HAS THE LINE BETWEEN LOCAL AND LONG DISTANCE ALSO BECOME**
10 **BLURRED?**

11 A. Yes. In addition to blurring the line between voice and data traffic, the technological
12 innovations described above have blurred – indeed, rendered irrelevant – the line between
13 local and long-distance traffic. New technologies and new modes of communication are
14 erasing the distinction between local and long distance that once segregated the industry
15 and drove some of the more significant policy decisions of the past. From the customer's
16 standpoint, it is no different to send an e-mail across the globe than across the street. A
17 customer can plug in a VoIP phone in Tucson using a local telephone number from
18 Boston. A business can provide its employees with a Blackberry® to communicate
19 between Phoenix and Philadelphia as easily as they communicate across town. A
20 customer can use her wireless phone in Scottsdale, Tampa or San Francisco, and pay the
21 same amount whether she calls a neighbor around the corner, a colleague in another town
22 or a relative across the continent. The obliteration of distinctions between local and long-

1 distance calling has been caused primarily by intermodal competition from wireless and
2 other technologies.

3 Stated simply, local and long distance wireline carriers have been forced to adapt to the
4 marketing strategies and technological capabilities of their *non*-wireline competitors. At
5 this point, even though they may still offer a stand-alone long distance or local product,
6 many traditional wireline carriers actively market packages of services to customers.
7 This is because the new entrants to the market often ignore geographic and jurisdictional
8 boundaries. The perfect example of such a service is VoIP, in which a customer may
9 have a number from one city, a broadband connection in another city, and use the phone
10 almost anywhere in the world. Such offerings make geography irrelevant to
11 communications. As a result of such new services and the flexibility that they have made
12 possible, customers now demand – and carriers must supply – communications services
13 that allow calling to local, regional, national, and even international locations with ease
14 and at competitive rates.

15 **Q. HOW CAN THE COMMISSION BEST EVALUATE THIS TRANSACTION IN**
16 **LIGHT OF THE INDUSTRY DYNAMICS THAT YOU DESCRIBE?**
17

18 **A.** The ACC, like the companies providing communications services, should adapt its
19 regulatory analysis to match an environment of new technologies and new customer
20 expectations. The ACC should evaluate the competitive effects of this transaction based
21 on the entirety of the communications market and not based on the wireline market
22 segment standing alone, much less any subset of that market, such as local or long
23 distance.

1 **Q. WHAT DO YOU MEAN BY "THE ENTIRETY OF THE COMMUNICATIONS**
2 **MARKET?"**

3
4 A. The ACC should view the market from the perspective of customers, who take little
5 notice of jurisdictional boundaries or outdated market distinctions except when they stand
6 in the way of efficient, reasonably priced services. It is particularly important to
7 recognize the breadth of the new market in which Verizon and MCI will compete
8 following the transaction. For example, large enterprise and medium-sized business
9 customers purchase services that include not just wireline voice, but data services as well
10 as network integration, network management capabilities and wireless services. The
11 competition to provide such services includes not only MCI, Verizon, AT&T and other
12 ILECs and competitive local exchange carriers ("CLECs"), but also, numerous
13 companies that are not regulated by the ACC and with which the ACC may be
14 unfamiliar.

15 **Q. HOW DOES THIS INDUSTRY ANALYSIS RELATE TO CONSUMERS AND**
16 **SMALL BUSINESS CUSTOMERS?**

17
18 A. Consumer and small business expectations have similarly changed and this market
19 segment too is now served by a broad array of providers and services, including wireline
20 and wireless voice and data, broadband from cable, VoIP, e-mail and Instant Messaging.
21 These customers generally can choose from a full range of "any time, any distance"
22 services from various providers such as wireline, wireless, broadband, cable, and VoIP.
23 If the ACC reviews this transaction with an understanding of current market realities and
24 expected market advances, it should conclude that this transaction will promote the
25 public good by creating an entity that is better able to compete against the new players in

1 the mass market sector (for example, VoIP and wireless companies) than MCI or Verizon
2 would have been alone.

3 **Q. PLEASE PROVIDE AN OVERVIEW OF MCI'S BUSINESS.**

4 A. MCI's subsidiaries⁶ offer communications services through three business segments
5 defined by their customer bases: "Enterprise Markets," "U.S. Sales and Service," and
6 "International and Wholesale Markets."⁷ The Enterprise segment includes the largest and
7 most complex business customers, including the Fortune 1000, as well as similarly
8 complex government and institutional accounts. MCI's enterprise segment primarily
9 serves large enterprise customers, including 75 federal government agencies. MCI's
10 enterprise services include a comprehensive portfolio of local-to-global data, Internet and
11 voice services, including IP network technology, VPN services, SONET private line,
12 frame relay, ATM and a full range of dedicated, dial-up, and value-added Internet
13 services.

14 The U.S. Sales and Service segment encompasses both commercial and mass market
15 segments. The commercial market segment includes other large and medium businesses,
16 while the mass market segment sells to residential customers and small businesses. The
17 international and wholesale market segment provides services to foreign entities and
18 wholesale customers.

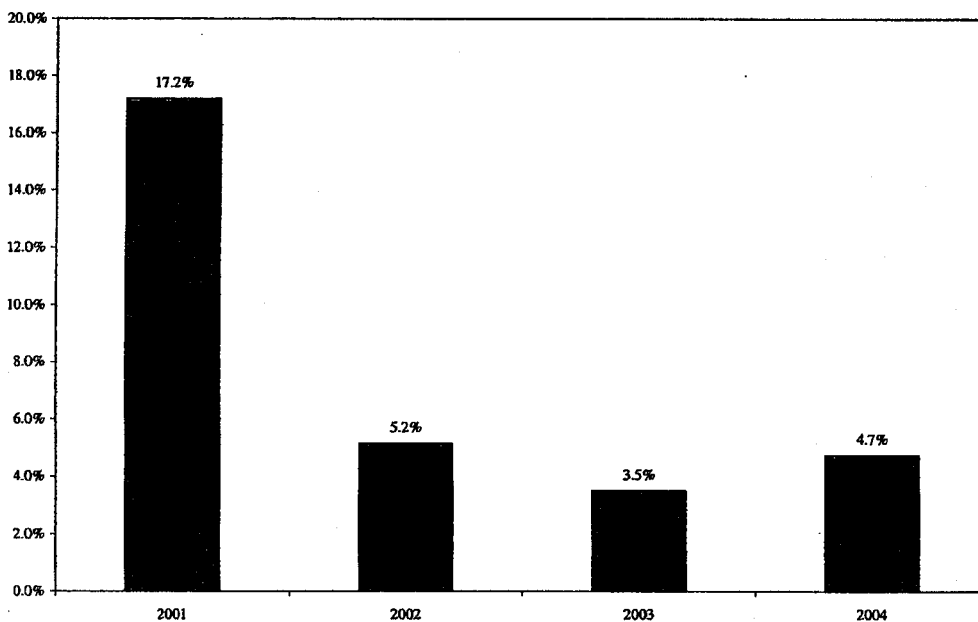
19 MCI has a strong and successful interstate and international enterprise segment sales
20 organization and network assets. MCI's extensive long-haul fiber network is particularly

⁶ The MCI subsidiaries operating in Arizona are listed in Verizon-MCI Joint Notice of Intent.

⁷ MCI Announces Fourth Quarter and Full-Year 2004 Results, MCI Press Release, Feb. 25, 2005.

1 well equipped to handle Internet protocol and data traffic, and its extensive international
2 network is capable of providing transport both across countries and in cities outside the
3 United States. However, between 2001 and 2004, MCI's capital expenditures decreased
4 from approximately \$6.5 billion to \$1 billion per year. Expressed as a percentage of its
5 revenues, MCI's capital expenditures for this period are set forth in Figure 1 below.

6 **Figure 1**
7 **MCI Wireline Capital Expenditures as a Percentage of Wireline Revenue⁸**



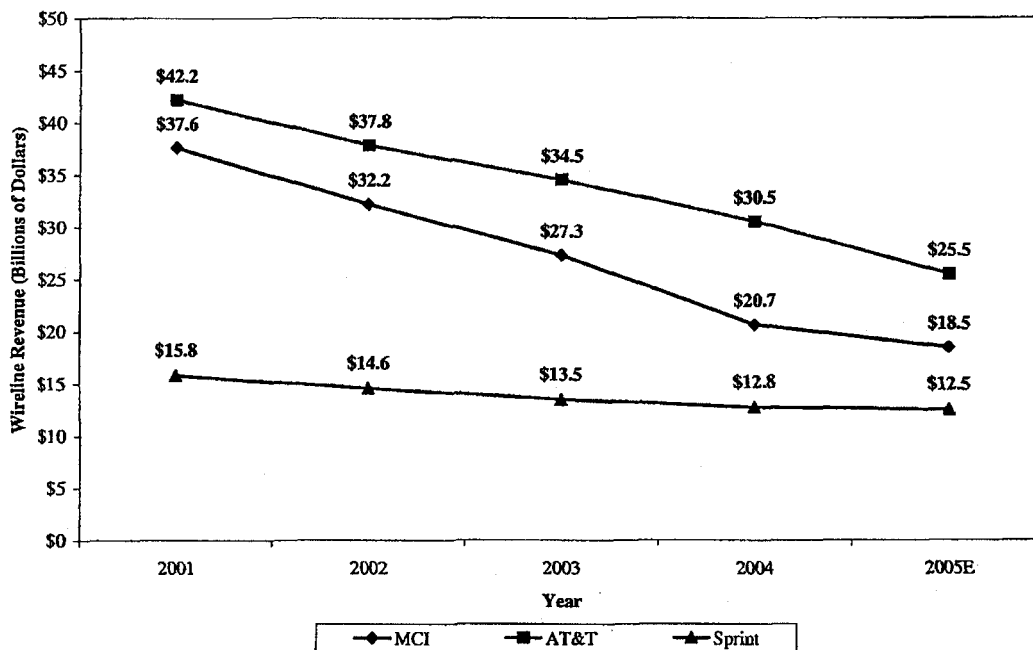
8 Source: MCI 10Ks

9 **Q. HAVE EVOLVING TECHNOLOGICAL AND MARKET TRENDS AFFECTED**
10 **MCI'S WIRELINE REVENUES?**
11

⁸ Note that the 4.7 percent shown for 2004 is from MCI's 2004 SEC Form 10 K. It differs slightly from the corresponding estimate of 4.9 percent from the January 14, 2005 UBS *Wireline Telecom Play Book* reported in the declaration of Bamberger, Carlton, and Shampine, Figure 2, filed on behalf of Verizon with the FCC on March 11, 2005. But regardless of which figure is used, the evidence of declining investment is clear.

1 A. Yes. Like other wireline toll carriers, MCI has recently experienced a substantial and
2 continuing decline in wireline revenues. MCI's witness, Michael Beach, explains the
3 reasons for this decline in his testimony. Figure 2 below depicts the trends in the major
4 IXCs' wireline revenues, including MCI's wireline revenues:

5 **Figure 2**
6 **Wireline Revenue of MCI, AT&T and Sprint**
7 **2001 through 2005**



8 Sources: Company Form 10-Ks and Hodulik, John C., et. al, "Wireline Telecom Play Book," UBS Investment Research, January 14, 2005.

9 **Q. HOW HAS MCI DECIDED TO MANAGE ITS DECLINING REVENUES?**

10 A. As Mr. Beach explains, MCI's declining wireline revenues and sales volumes informed
11 that company's decision to reduce dramatically its marketing efforts to mass market
12 customers, including very significant reductions in mass market advertising, reductions in
13 force among its mass markets sales force, as well as the closing of several call centers.

1 **Q. PLEASE PROVIDE AN OVERVIEW OF VERIZON'S BUSINESS.**

2 A. Verizon subsidiaries⁹ provide wireless communications throughout the United States and
3 provide wireline services in 28 states (including Arizona) and the District of Columbia.

4 Verizon's operations include four business segments: domestic, wireless, information
5 services, and international.¹⁰ Verizon's domestic communications services include voice
6 and data services, Centrex services, as well as exchange access services, including
7 switched access and special access services.

8 Verizon owns 55 percent of Verizon Wireless through a joint venture agreement with
9 Vodafone Group Plc ("Vodafone"). Verizon Wireless offers wireless voice and data
10 services as well as wireless equipment. In addition to providing communications
11 services, Verizon's domestic subsidiaries provide information services including
12 directory publishing and electronic commerce. Verizon's international subsidiaries
13 provide wireline and wireless communications operations and investments.

14 **Q. HOW HAVE TECHNOLOGICAL AND MARKET PLACE TRENDS AFFECTED**
15 **VERIZON'S TRADITIONAL WIRELINE BUSINESS?**
16

17 A. Verizon's wireline business has declined substantially, with dramatic reductions in the
18 number of retail lines served and minutes of use of its switched access services. Total
19 Verizon retail lines in service fell by 18 percent between December 2001 and December

⁹ The Verizon companies that operate in Arizona are listed in the Verizon-MCI Joint Notice of Intent.

¹⁰ *Verizon Fourth Quarter 2004, Investor Quarterly*, Jan. 27, 2005.

1 2004.¹¹ Verizon's retail lines declined in each customer category, including residential
2 and all business customers.¹²

3 **Q. HOW DOES THE MERGER OF MCI AND VERIZON RESPOND TO THE**
4 **INDUSTRY TRENDS AND COMPETITIVE CHALLENGES THAT YOU**
5 **DESCRIBE?**

6 **A.** Verizon's merger with MCI represents a natural, evolutionary step in the industry
7 transformation discussed above. The evidence of a dramatic transformation of the
8 communications industry – driven by technological advances – is overwhelming, whether
9 viewed on a national scale or in Arizona. For example, some large enterprise customers
10 are moving to wireless services in lieu of wireline services (as illustrated by an agreement
11 between Sprint and Ford Motor Company to replace 8,000 SBC lines with Sprint's
12 wireless PSC service). Many enterprise customers are migrating their traffic from
13 separate voice and data networks to integrated IP networks capable of providing all of the
14 services they need more efficiently. In addition, mass-market customers are increasingly
15 taking advantage of wireless, digital, cable and other solutions for their evolving
16 communications needs. The companies that can provide such services are numerous and
17 varied. Verizon and MCI have determined that a combination of their complementary
18 strengths is the best way to compete with such providers.

19 **Q. ARE THE TECHNOLOGY AND MARKET TRENDS DESCRIBED ABOVE**
20 **CONFINED TO THE ENTERPRISE MARKET SEGMENT?**

¹¹ Derived from data provided by Verizon, see "Verizon-Total (excl. HI), Retail Quarterly Data for December 2001-December 2004, Located-Channels Basis."

¹² *Id.*

1 A. Hardly. As previously noted, a similar transformation is reshaping the consumer market,
2 with wireline, cable and other broadband, wireless, and VoIP competition present in the
3 state. I discuss these various modes of competition below.

4 **Q. PLEASE DESCRIBE WIRELINE COMPETITION IN ARIZONA.**

5
6 A. Competition among traditional wireline providers in Arizona – that is, among ILECs and
7 CLECs – is extensive, as evidenced by a decline in Verizon’s access lines in Arizona
8 since 1999. This is evident even when competition is measured by reports that include
9 only a limited portion of the total market, such as larger wireline CLECs. According to
10 the FCC’s Local Competition Report, CLEC market share in Arizona is 25%, higher than
11 the national average, and increased substantially in the past four years. CLEC market
12 share has increased almost 400 percent since 2000 and grew 15 percent during 2004
13 alone. Over 55 percent of the CLEC lines in Arizona are “CLEC Owned,” i.e., CLECs
14 reported that 439,522 of their 792,272 lines in Arizona were served over their own
15 facilities, rather than using UNEs or resale. Much of this competition comes from cable
16 companies, such as Cox Communications.

17 As noted, FCC reports are conservative in terms of measuring competitive line losses for
18 ILECs. First, the FCC report does not include VoIP providers, wireless carriers, or
19 broadband lines – all of which can and are used as alternatives for traditional wirelines.
20 Even the measure of wireline CLEC penetration does not capture the total CLEC market
21 since CLECs serving less than 10,000 access lines are not required to report to the FCC.

22 **Q. PLEASE DESCRIBE COMPETITION FROM CABLE AND BROADBAND**
23 **SERVICES IN ARIZONA.**
24

1 A. Cable companies, which provide both broadband and voice services, are among the most
2 competitive communications providers in the state. For example, cable companies
3 supply far more of the state's broadband connections than the local exchange companies
4 provide. They can and do provide circuit-switched telephony, but their broadband
5 connections are also being used for VoIP services that are supplied by the cable provider,
6 or VoIP applications provided by other VoIP competitors, such as Vonage. All of the
7 major cable operators have begun offering VoIP services over their networks and by the
8 end of this year will be offering service to more than 40 million homes in the United
9 States. Major cable operators already make voice service available across their entire
10 footprint, while others expect to reach that milestone by the end of next year. Nearly five
11 million American households already subscribe to cable telephony and VoIP services,
12 and cable companies and other VoIP providers are predicted to displace wireline in as
13 many as one-fifth of American households within five years.

14 Data from the FCC's Local Competition Report and Report on High-Speed Services for
15 Internet Access show that Arizona, like the rest of the nation, is experiencing widespread
16 and growing intermodal competition, none of which will be affected by the transaction.
17 Said differently, once the transaction is completed, numerous cable, wireless, Internet and
18 broadband and VoIP competitors will continue to provide communications services to
19 mass market customers in the state.

20 According to data reported by the cable companies to the *Television & Cable Factbook*,
21 97 percent of the two million homes passed by cable systems in Arizona have broadband

1 service available and 73 percent of the homes passed already have cable company
2 provided telephony available. Table 1 provides a more detailed look at these data:
3

Table 1 Advanced Cable Services Are Widely Available in Arizona					
Company	Homes Passed			Percent of Homes Passed	
	Total	Broadband Ready	Telephony Ready	Broadband Ready	Telephony Ready
Cox Communications	1,477,068	1,473,291	1,446,823	100%	98%
Other	517,474	460,664	0	89%	0%
Total	1,994,542	1,933,955	1,446,823	97%	73%
Notes: Missing homes passed data is estimated based on the average penetration of other Arizona systems; Qwest's cable operation in Phoenix is excluded. Sources: Television & Cable Factbook, Cable Volume, 2005.					

4
5 Cox Communications, which accounts for almost 75 percent of cable homes in
6 Arizona, has been quite successful in selling its advanced services. In its first quarter
7 2005 earnings release, Cox states that it added 177,413 high speed Internet customers
8 nationally, to end the quarter with over 2.7 million, representing year-over-year
9 customer growth of 28%. Cox added 111,522 digital phone customers, the most ever
10 added in a quarter to reach over 1.4 million, representing year-over-year growth of
11 33%.¹³

12 The technological convergence and intermodal competition between the cable
13 companies and wireline carriers is further illustrated by Qwest's decision to compete

¹³ Cox Press Release available at <http://phx.corporate-ir.net/phoenix.zhtml?c=76341&p=irol-newsArticle&t=Regular&id=707716&>.

1 directly with Cox in parts of Phoenix by offering a competing television service.¹⁴

2 According to Qwest's web site:

- 3 • Qwest Choice™ TV & OnLine offers an innovative alternative to
4 existing cable or satellite service, with the latest in video
5 entertainment, high-speed Internet access, and integrated telephony
6 features -- all delivered through an existing telephone line. Qwest
7 Choice TV & OnLine customers can view programming, access
8 the Internet, and talk on the phone—all at the same time, through
9 one single phone line.¹⁵
10
- 11 • Qwest Choice™ TV provides more value and choice for a
12 customer's dollar, with multiple premium movie options, Pay-Per-
13 View and audio music channels. Powered by VDSL technology,
14 Qwest Choice TV integrates telephony features such as Qwest
15 Caller ID and Voice Messaging,* and is connected by a single
16 Digital Gateway box.¹⁶

17
18
19 **Q. PLEASE DESCRIBE THE GROWTH OF BROADBAND SERVICES IN**
20 **ARIZONA.**

21
22 **A.** According to the FCC's High-Speed Services for Internet Access Report, broadband
23 access lines in Arizona grew from about 153,500 in December 2000 to about 751,000 in
24 December 2004. The number of residence and small business broadband lines increased
25 by almost 558,000 lines, or almost 400 percent, over the same period. Broadband
26 networks also facilitate the use of other means of communications as an alternative to
27 voice calls, such as e-mail and instant messaging. More consumers now use broadband
28 connections instead of dial-up connections to access the Internet, and an increasing

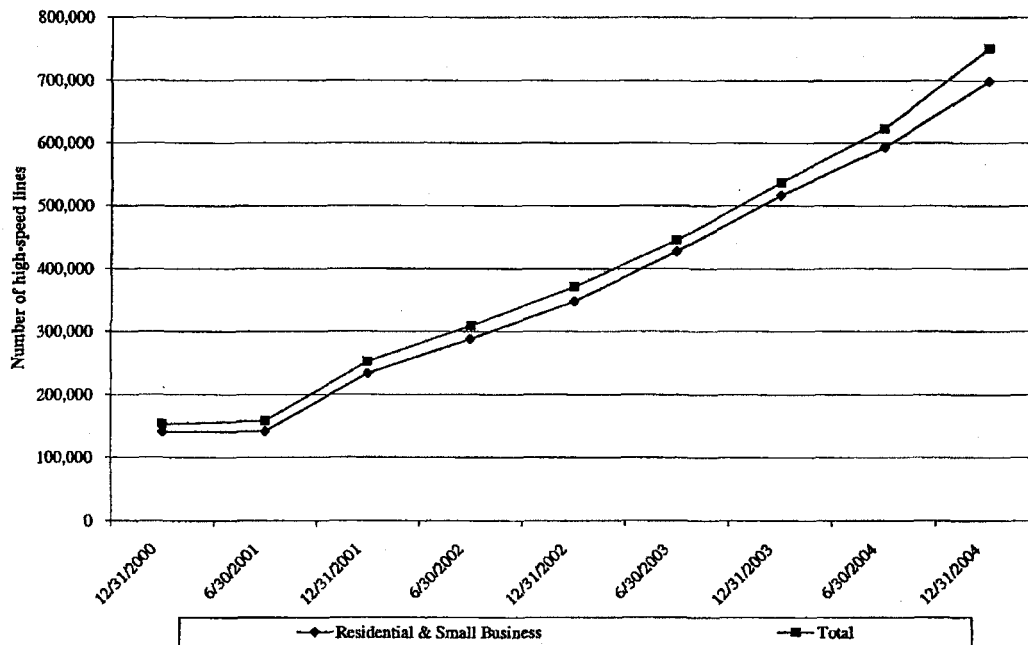
¹⁴ See Television & Cable Factbook, Cable Volume, 2005.

¹⁵ <http://www.qwest.com/vdsl/phoenix/>

¹⁶ <http://www.qwest.com/residential/products/tvservices/phoenix/tv.html>

number have begun using these broadband connections for voice as well.¹⁷ Data on the growth of high-speed lines in Arizona are shown in Figure 3 below.

Figure 3
High Speed Lines in Arizona
2000 Through 2004



Source: Federal Communications Commission Reports, High Speed Services for Internet Access: Status as of June 30, 2000 through 2004 and December 31, 2000 through 2004.

With the increase in the number of broadband lines, the number of entities offering high-speed Internet services has grown. As of December 2004, there were nine ADSL providers, eight coaxial cable providers and a total of 26 unduplicated high-speed line providers in Arizona. This is an increase from four ADSL providers and between one

¹⁷ See Nielsen Net Ratings, "U.S. Broadband Connections Reach Critical Mass," August 18, 2004.
http://www.netratings.com/pr/pr_040818.pdf

1 and three coaxial cable providers for a total of nine unduplicated providers in 2000.
2 Moreover, the number of Zip Codes with two or more providers had grown to 95 percent,
3 exceeding the national level of 83 percent. Cable modem service continues to be the
4 major source of broadband in Arizona. As of December 2004, coaxial cable accounted
5 for about 73 percent and ADSL accounted for about 18 percent of the 751,000 high speed
6 lines serving Arizona.

7
8 **Q. PLEASE DESCRIBE COMPETITION FROM WIRELESS CARRIERS IN**
9 **ARIZONA.**

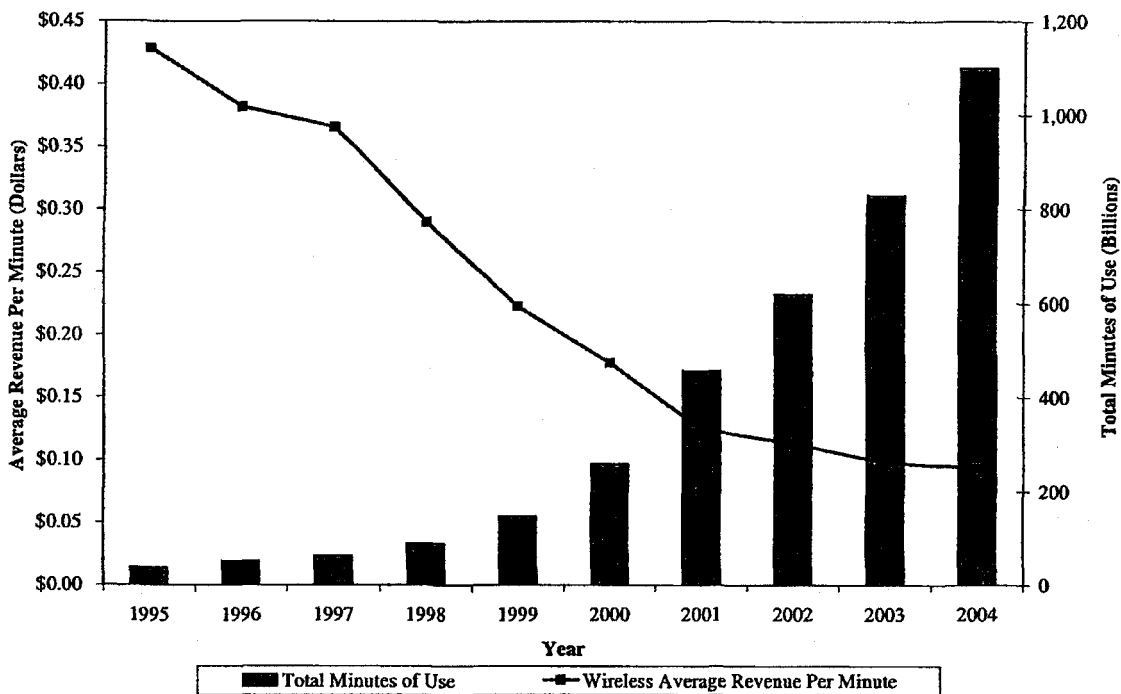
10
11 **A.** There are numerous wireless providers serving customers in Arizona. These include
12 Cingular, Sprint, T-Mobile, Nextel, MetroMobile, as well as Verizon Wireless. Wireless
13 competition is robust and customers are increasingly using wireless services in direct
14 competition with traditional telecommunications services. Nationally, the number of
15 wireless subscribers has overtaken the number of traditional incumbent local exchange
16 carrier lines, and this is also true in Arizona where there are approximately 3.3 million
17 wireless subscribers versus approximately 2.4 million ILEC lines. In Arizona, the
18 number of wireless subscribers grew 193 percent between December 1999 and December
19 2004.
20 Over this same period, the number of wireless subscribers in the United States grew from
21 79.7 million to over 181 million.¹⁸ According to the FCC, 23 percent of voice minutes in
22 the U.S. in 2003 were wireless, up from 7 percent in 2000,¹⁹ and from 1999 to 2003 the

¹⁸ FCC Report, Local Telephone Competition: Status as of December 31, 2004, Table 13.

¹⁹ See In the Matter of Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services, Ninth Report ("Ninth CMRS Report"), FCC 04-216, released September 28, 2004, at ¶ 213.

monthly minutes of use per subscriber increased from 185 to 507.²⁰ As shown in Figure 4 below, total minutes of use of wireless services increased from 38 billion in 1995 to about 1.1 trillion in 2004, a 29-fold increase in nine years. This growth has come as a result of, and has contributed to, the declining average charges for wireless usage depicted below.²¹

Figure 4
Wireless Average Revenue Per Minute and Total MOUs



Notes and Source: Federal Communications Commission Ninth Annual CMRS Competition Report, Table 9 at A-11. CTIA survey.

The tremendous growth of wireless subscribership and usage proves that customers have become accustomed to the rapidly diminishing drawbacks of wireless and are becoming

²⁰ Ninth CMRS Report, Table 9.

²¹ Note that BLS wireless services price indices decreased significantly from the late 1990s through 2001; leveled off and then declined slightly more through the end of 2004. Price indices for wireline services stayed relatively constant over this period as declines in toll service prices offset the local price increases. Overall, wireless prices have clearly come down by a substantial amount relative to wireline services.

1 more willing to give up wireline. Indeed, it was reported more than a year ago that
2 wireless service has gained a general level of acceptance among consumers despite its
3 "limitations." One study concludes that "[c]onsumers appear to be more willing to accept
4 a modest reduction in the level of reliability in return for other benefits (especially low
5 price, and improved convenience)."²²

6 **Q. YOU HAVE MENTIONED COMPETITION FROM VOIP SERVICES AND**
7 **PROVIDERS. HOW DOES VOIP COMPETE WITH WIRELINE SERVICES?**
8

9 **A.** VoIP technology allows customers to make and receive local and long distance calls
10 using adapters with ordinary telephone equipment and ordinary dialing patterns. VoIP
11 technology can be used in at least three basic ways: (1) cable companies use VoIP
12 technology over their own networks to provide "cable telephony" without requiring
13 customers to subscribe to broadband service;²³ (2) VoIP service can be provided as a
14 software application over customers' existing broadband (DSL or cable) connections and
15 uses the public Internet to transport calls; and (3) businesses use VoIP equipment on their
16 private networks and switching systems in place of traditional telephone services.
17 VoIP services include many of the basic features that wireline circuit switched telephony
18 offers, as well as advanced features often not available from ILEC services. VoIP

²² See, e.g., R. Talbot, *Battle for the Broadband Home*, RBC Markets, Jan. 27, 2004, p. 7. See also Frank Louthan, Vice President, Equity Research, Raymond James, prepared witness testimony before the Subcommittee on Telecommunications and the Internet of the House Energy and Commerce Committee, Washington, DC (Feb. 4, 2004) ("A key change in consumer preference would include acceptance of less than '5-9's' reliability for phone coverage, which I believe is already emerging, as evidenced by the significant numbers of consumers that already view wireless as an acceptable alternative to a landline phone.").

²³ See, e.g., Cox Communications FAQs "Will My House Need to be Rewired?" and "Will My Current Telephones Work?" at http://www.cox.com/Telephone/FAQs.asp#P25_5970 accessed March 29, 2005. Typically, the customer is not required to buy specific equipment to use the VoIP service and can use her existing telephones with adapters provided by the cable company.

1 offerings are typically priced lower than ILEC wireline unlimited local and long distance
2 calling packages. They also offer features not available from traditional wireline
3 services, such as the ability to choose any area code in the nation, the ability to access
4 voice mails on the Internet that were sent via sound attachments by e-mail, telemarketer
5 blocking that rejects calls from automated dialing computers, and call filtering that offers
6 control over who can call at what hours.²⁴

7 VoIP providers' services have grown extremely fast in the last year or so. For example,
8 Vonage offers Premium Unlimited services for \$24.99 per month and Small Business
9 Unlimited services for \$49.99 per month.²⁵ Vonage had exceeded 400,000 subscribers as
10 of January 2005, after adding over 300,000 new subscribers in 2004 alone.²⁶ And,
11 according to a recent article in BUSINESS WEEK: "*Vonage subscriptions have jumped*
12 *63% this year, to 700,000. Some 15,000 more jump on board every week.*"²⁷

13 **Q. PLEASE DESCRIBE VOIP COMPETITION IN ARIZONA.**

14 A. Given the widespread availability of broadband service in Arizona and given the state's
15 favorable high-technology environment, growth in the VoIP market likely has occurred in
16 Arizona, although state-specific data are not reported. Because VoIP service is offered as
17 an application over the Internet, and because the providers are not regulated and can

²⁴ Pogue, David, "Cut-Rate Calling, By Way of the Net," The New York Times, April 8, 2004.

²⁵ Vonage, *Products and Services*, accessed March 29, 2005, <http://www.vonage.com/products.php>, accessed April 8, 2005.

²⁶ Vonage Press Release, "Vonage Crosses 400,000 Line Mark," January 5, 2005, accessed March 29, 2005, http://www.vonage.com/media/pdf/pr_01_05_05.pdf, accessed April 8, 2005.

²⁷ See BUSINESSWEEK ONLINE June 20, 2005, *The Future Of Tech-Telecommunications, Vonage: Spending As Fast As It Can*, emphasis added. http://www.businessweek.com/magazine/content/05_25/b3938626.htm, accessed June 15, 2005.

1 provide service from anywhere, it is not feasible to determine all of the providers that are
2 serving customers in Arizona. However, even a cursory review of some VoIP providers
3 demonstrates that the service is available to Arizona customers from a variety of VoIP
4 companies. For example, Packet8 offers an unlimited calling plan for \$19.95 per month
5 and provides for unlimited calls to anyone in the U.S. or Canada. Broadvox Direct offers
6 similar plans starting at \$12.95 a month for 500 minutes anywhere in the U.S. or Canada.
7 It also offers an unlimited plan for \$19.95 a month. Vonage offers several plans starting
8 at \$14.99.

9 Table 2 below lists some VoIP providers with Arizona area codes; the table shows the
10 Arizona area codes in which they have number assignments, and their package offerings
11 for residential and small businesses.²⁸ All provide some sort of unlimited local and long
12 distance calling plan with monthly prices ranging from \$19.95 to \$29.99.

²⁸ VoIP providers can serve customers in any area of the state, even if they don't have an area code assignment. They can also use number portability.

1

Table 2 Arizona VoIP Plans						
		Area Codes	Monthly	Anytime	Additional	Long
Provider	Plan	Offered	Price	Minutes	Minutes	Distance
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Vonage	Premium Unlimited	480, 520, 602, 623	\$24.99	Unlimited	N/A	Included
Vonage	Basic 500		\$14.99	500	\$0.039	Included
Vonage	Small Business Unlimited		\$49.99	Unlimited	N/A	Included
Vonage	Small Business Basic		\$39.99	1,500	\$0.039	Included
AT&T	CallVantage Service	480, 520, 602, 623, 928	\$29.99	Unlimited	N/A	Included
AT&T	CallVantage Local		\$19.99	Unlimited Local	N/A	\$0.04
AT&T	CallVantage Small Office ¹		\$49.99	Unlimited	N/A	Included
Lingo	Link	520, 602, 623, 928	\$7.95	Unlimited In-Network	\$0.03	Unlimited In-Network
Lingo	Basic		\$14.95	500	\$0.03	Included
Lingo	Unlimited		\$19.95	Unlimited	N/A	Included
Lingo	Business Unlimited ²		\$49.95	Unlimited	N/A	Included
Lingo	Business Unlimited Int'l ²		\$99.95	Unlimited	N/A	Included
Net2Phone	US/Canada Unlimited	520, 602, 928	\$29.99	Unlimited	N/A	Included
Net2Phone	US/Canada 500		\$14.99	500	\$0.039	Included
Net2Phone	VoiceLine Basic ³		\$8.99	Unlimited Inbound	N/A	\$0.05

Notes & Sources:

Provider websites, accessed May 18, 2005.

¹ CallVantage Small Office also includes unlimited faxing, additionally the service includes a second line with 500 long distance faxing and calling minutes per month. Additional minutes over 500 for the second line costs \$0.04 per minute.

² Lingo Business plans includes 500 outgoing fax minutes. The Unlimited Business International plan includes calls to many international countries.

³ Net2Phone VoiceLine Basic: Unlimited inbound calls & pay-as-you-go outbound calls.

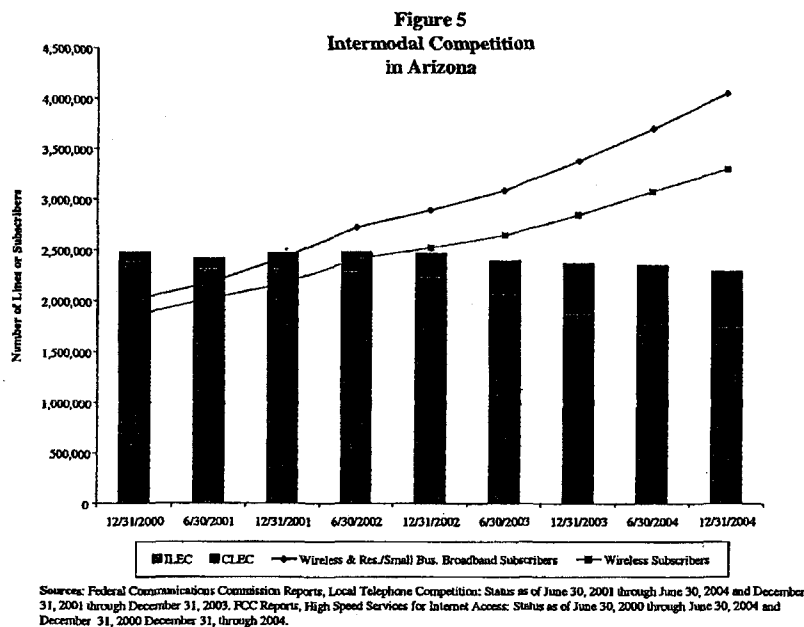
2

3

1 **Q. HOW HAS THE COMPETITION THAT YOU HAVE DESCRIBED AFFECTED**
2 **VERIZON AND MCI?**

3 A. Providers of wireline services – whether ILEC or CLEC – face intense competition both
4 from other wireline companies and from intermodal competition of the type I described
5 above. The widespread availability and rapid growth of non-wireline alternatives has
6 changed the communications business to the point that the traditional wireline (*i.e.*,
7 telephone exchange) businesses of both MCI and Verizon (like those of other wireline
8 carriers) have been in decline for some time.

9 As shown in Figure 5 below, residence and small business conventional wireline (*i.e.*,
10 ILEC + CLEC) access lines in Arizona have declined by seven percent since year-end
11 2000 (*i.e.*, an average of about two percent per year). During that same time period: (i)
12 the number of wireless subscribers increased by over 75 percent or almost 1.5 million
13 new subscribers; (ii) the number of residential and small business broadband lines
14 increased by about 558,000 lines or about 400 percent; and (iii) by December 31, 2004
15 the number of wireless subscribers and residential and small business broadband lines
16 was over 1.7 million (or about 75 percent) higher than the number of residential and
17 small business ILEC and CLEC lines.



This transaction is intended to enhance the ability of Verizon and MCI to compete effectively by offering a full suite of competitively priced services, both nationally and in Arizona. It is a rational response to the intermodal competition described above.

THE VERIZON-MCI TRANSACTION IS A RATIONAL RESPONSE TO THE INTERMODAL COMPETITION DESCRIBED ABOVE.

Q. HOW WILL THIS TRANSACTION HELP VERIZON MEET THE NEEDS OF LARGE ENTERPRISE CUSTOMERS?

A. Customers in the large enterprise segment of the market (*i.e.*, Fortune 1000 companies, federal government agencies, large state agencies and similar sized institutions) are among the most sophisticated consumers of communications services. These customers purchase complex, integrated packages of voice and data services through competitive

1 procurement or individually negotiated contracts. These customers also typically require
2 services at multiple locations, and often require customization of network functions and
3 systems. Under such contracts, voice is just one of many applications that ride over these
4 networks. Although Verizon has been working to increase its large enterprise business
5 for several years, it still has a relatively small share of this business in its operating
6 territories and even less of a presence outside its operating territories. By joining
7 Verizon's and MCI's complementary assets and sales forces, the transaction will make
8 the combined company more competitive across the enterprise market segment than
9 either company would have been alone. Verizon's local and wireless presence, coupled
10 with MCI's core strength in enterprise and government sales, will allow the companies to
11 provide enterprise and government customers with a better mix of products and services
12 to meet these customers' needs.

13 **Q. YOU SAID THAT VERIZON AND MCI TOGETHER WILL BE BETTER ABLE**
14 **TO COMPETE IN THE ENTERPRISE SEGMENT, BUT HOW WILL THIS**
15 **TRANSACTION BENEFIT LARGE ENTERPRISE CUSTOMERS?**

16 **A.** Large enterprise customers will benefit from the creation of a strong new company with
17 the network reach and financial resources that enable it to compete in this technologically
18 intense and highly competitive market segment. Government customers will benefit and
19 national security will be enhanced by the planned investment in the national and
20 international communications infrastructure that is relied upon by the Departments of
21 Defense and Homeland Security, as well as other federal and state agencies. Far from
22 impairing the financial fitness of either company, Verizon will bring its financial strength
23 to this transaction in a way that will ensure that these customers will continue to be

1 served by a strong provider that can meet the customers' needs nationally and
2 internationally. Indeed, Verizon will bring to the enterprise and governmental business
3 sector the same commitment to innovation and investment that it previously (and
4 successfully) brought to its mass-market wireline and wireless businesses. In addition,
5 many large enterprise and government customers use multiple, coordinated providers to
6 meet their needs. To the extent that such customers choose to have multiple suppliers
7 involved in their provisioning, competing suppliers, and ultimately customers, will
8 benefit from the availability of an efficient wholesale provider with a broad reach. Large
9 enterprise and government customers are sophisticated purchasers in a market that has
10 been highly competitive for years, but enhancing this important market is a significant
11 benefit of this transaction that should be of prime importance to the ACC.

12 **Q. ARE THERE ADDITIONAL BENEFITS FOR LARGE ENTERPRISE**
13 **CUSTOMERS?**

14 **A.** Yes. Within its region, Verizon has an extensive local network and Verizon Wireless has
15 one of the most advanced and extensive wireless networks in the country. MCI, by
16 contrast, has a global fiber optic long-distance network and global data capabilities that
17 include private line and packet-switched data services such as ATM and Frame Relay. In
18 addition, MCI has an extensive IP-based backbone network and related expertise. The
19 combination of these assets will benefit customers by enabling them to obtain a broad
20 array of services in a single transaction with a single, integrated supplier, and at the
21 competitive pricing permitted and encouraged by the more efficient operation of these
22 networks. The transaction also will allow Verizon to use MCI's ISP connectivity

1 services (such as email, web hosting, DNS services and others), in a way that will
2 enhance its capabilities in a segment in which Verizon is currently a small provider.

3 **Q. CAN OTHER EXISTING PROVIDERS ALSO DELIVER A RANGE OF**
4 **CAPABILITIES TO LARGE ENTERPRISE CUSTOMERS?**

5
6 **A.** Yes, the transformation in communications that I described earlier applies to *all*
7 communications providers. The Verizon-MCI acquisition is just one example of the
8 changes the industry is undergoing. Verizon and MCI believe that their combination is
9 the best way for the two companies to offer customers services provided over a centrally
10 managed network, leading to an increased transparency in network management that
11 some customers desire. Ownership of the various pieces of a network enhances a
12 carrier's ability to standardize service quality and other requirements across the entire
13 network. But other providers bring their own, sometimes unique, assets to the table and
14 probably consider their own mix of products, services, and expertise to be most
15 responsive to customer needs. Even where competitors do not have significant network
16 assets, they are able to and can assemble transmission capacity from diverse sources, and
17 there is generally a surplus of long-haul capacity in the market today.²⁹ The point is that
18 Verizon and MCI believe that this transaction is the best way for them to compete, given
19 their current situations, but there are many other companies who are similarly able to
20 compete by offering their own services over their own facilities, by leasing facilities from
21 others, or by partnering with various companies. Enterprise customers clearly will

²⁹ See Jeff Halpern, Bernstein Research Weekly Notes, *U.S. Telecom: Wholesale Segment Is Declining, But Still Significant* at 2 (Jan. 21, 2005) ("*Bernstein Wholesale Report*") ("The long-distance market is burdened with a capacity glut from the overinvestment of the late 1990s, leading to persistent pricing pressure.").

1 benefit from this type of dynamism as Verizon, MCI, and every other market participant
2 try to determine the best way to meet customer demand.

3 **Q. HOW WILL THIS TRANSACTION HELP VERIZON MEET THE NEEDS OF**
4 **CONSUMERS AND SMALL BUSINESS CUSTOMERS?**

5 **A.** Mass-market telecommunications services consist of services sold to residence and small
6 business customers. As discussed in detail above, providers to this segment of the market
7 include cable companies, traditional IXC, CLECs, VoIP and wireless providers, and
8 resellers. Although, many medium-sized businesses buy sophisticated communications
9 solutions for voice and data that are similar to those purchased by large enterprise
10 customers and are properly regarded as part of the enterprise segment, whereas some
11 medium-sized businesses may buy "off the shelf" solutions to their communications
12 needs and are more like small business customers. Either way, these customers will
13 benefit from the transaction. As products and services are developed for the large
14 enterprise sector, they can be delivered to smaller business customers with similar needs.
15 These customers also want services and/or packages that take care of their any-distance
16 voice and data (Internet) needs at reasonable prices, and the transaction will allow
17 Verizon and MCI to meet this need more effectively than either company could alone.

18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

23 **Q. WILL THIS TRANSACTION HAVE AN ADVERSE EFFECT ON THE RATES**
24 **AND QUALITY OF SERVICE OF THE REGULATED SUBSIDIARIES OF**
25 **EITHER VERIZON OR MCI?**

1 A. No. As previously discussed, the transaction requires no change to the operations of the
2 regulated subsidiaries of either MCI or Verizon; therefore, there should be no impact on
3 rates, service quality or operations at the regulated company level, and the post-
4 transaction company will maintain or improve the quality of service to customers in
5 Arizona. Verizon and MCI have both long recognized that providing high-quality service
6 is essential in a competitive marketplace. Both companies are providing high-quality
7 service and their commitment to service quality will remain unaffected by the transaction.
8 In addition, the transaction will allow Verizon and MCI to share their areas of expertise
9 and position the new company to improve its overall quality of service and customer
10 satisfaction. Moreover, the increased financial strength of the post-transaction company
11 will support additional investments in advanced technologies and upgrades in network
12 infrastructure, which will in turn contribute to improved service quality.

13 The transaction will not impair the management of the affected Arizona utility
14 subsidiaries. Verizon and MCI are committed to ensuring that there will be no
15 diminution in the quality of the management of MCI's subsidiaries. To the contrary,
16 access to the skills and expertise of MCI's personnel (and those of its telephone operating
17 subsidiaries), particularly in the enterprise line of business, is one of the reasons that
18 Verizon chose to enter into the Agreement. And Verizon – whose wireline and wireless
19 operations are themselves each the product of successive mergers – will draw on
20 management personnel experienced in the effective implementation of the transaction
21 without disruption to on-going operations.

1 Moreover, the management of the combined company will be drawn from the current
2 management of both Verizon and MCI. These companies offer personnel with decades
3 of diverse and complementary experience and expertise, which will undoubtedly benefit
4 the combined company and its Arizona subsidiaries.

5 **Q. HOW WILL THE BENEFITS OF THE TRANSACTION BE DELIVERED TO**
6 **CONSUMERS AND SMALL OR MEDIUM BUSINESSES IF THE OPERATIONS**
7 **OF THE REGULATED COMPANIES DO NOT CHANGE?**

8 A. As discussed above, the more immediate impact of this transaction is most likely to be
9 seen in the delivery of services to large enterprise and government customers. However,
10 the benefits of the transaction will ultimately be provided to all customers because the
11 transaction will create a more competitive entity able to provide a broader range of
12 services than either MCI or Verizon could have provided alone. It will also benefit all
13 customers by enabling investment in, and improvements to, MCI's networks and
14 operating systems.

15 **Q. DOES THE TRANSACTION AFFECT THE REGULATION OF THE**
16 **OPERATIONS OF THE COMBINED COMPANY IN ARIZONA?**

17 A. No. This transaction does not alter the ACC's regulatory authority over the state-
18 regulated Verizon and MCI business units. Under the Agreement, MCI will become a
19 subsidiary of Verizon and the MCI subsidiaries will become secondary or tertiary
20 subsidiaries of Verizon. All of the state-regulated MCI and Verizon business units will
21 retain whatever regulatory certificates and obligations they currently have.

22 **Q. PLEASE EXPLAIN WHY THE TRANSACTION WILL NOT IMPAIR THE**
23 **FINANCIAL STATUS OF THE COMPANIES' ARIZONA OPERATIONS?**

1 A. The transaction will maintain or improve the financial condition of the affected Arizona
2 regulated subsidiaries. This transaction will occur at the parent holding company level
3 and will have no structural impact on any of the subsidiaries. Thus, after the transaction,
4 the regulated entities that will exist will be exactly the same entities that existed prior to
5 the transaction. However, since Verizon is an established communications provider with
6 a strong balance sheet, the transaction will improve the financial conditions of the MCI
7 subsidiaries. Further, the combined company will have greater financial strength and
8 flexibility than either company could achieve alone because of its greater size and
9 complementary strengths and assets.

10 Q. PLEASE EXPLAIN WHY THE TRANSACTION WILL NOT PREVENT THE
11 COMPANIES FROM ATTRACTING CAPITAL AT FAIR AND REASONABLE
12 TERMS FOR THEIR OPERATIONS IN ARIZONA.

13
14 A. For reasons similar to those discussed above in terms of financial status, the merger will
15 not prevent the companies from attracting capital at fair and reasonable terms. The
16 analysis that has been done to date by Verizon shows that the overall impact on the
17 combined company's ability to raise capital should be negligible. First, Verizon now
18 funds its various ILEC subsidiaries through corporate funding mechanisms, rather than
19 individual bond issues. Second, Verizon has made substantial progress in achieving
20 significant reductions in debt overall and in cost controls throughout its business units.
21 Finally, as a diversified communications company with wireline, wireless and broadband
22 assets, Verizon successfully raises both debt and equity capital and does not foresee any
23 diminishment in its ability to continue to raise capital at reasonable rates following the
24 merger.

25

1 **Q. WHAT SHOULD THE ACC CONCLUDE ABOUT THE TRANSACTION'S**
2 **POTENTIAL IMPACT ON COMPETITION?**

3 A. The ACC should conclude that this transaction creates a more effective competitor and
4 does not cause any countervailing anti-competitive harm. This transaction will not
5 impair competition and will not have a material adverse effect on competition among
6 providers of communications services. Further, because of the substantial benefits that
7 the merger will bring, the combination of Verizon and MCI will be in the public interest.

8 The evidence that supports this conclusion can be summarized as follows:

- 9 1. At the level of network assets, the two companies are an almost
10 perfect fit, with MCI providing a global long-distance voice and
11 data network and Internet backbone, and Verizon providing a
12 dense, in-region local wireline network and best-in-class wireless
13 network.
- 14 2. The transaction will enable greater investment in the companies'
15 networks and assets than either company could provide alone.
16 Verizon will make substantial investments to realize the efficiency
17 and service-related benefits of the transaction, and has already
18 committed to a \$2 billion investment (enhancing MCI's network
19 and systems) as a part of this transaction.
- 20 3. The state-regulated subsidiaries of both Verizon and MCI will
21 remain regulated by the ACC. More important, the incentives of
22 Verizon and MCI to provide quality services at reasonable rates to
23 all customers will not be harmed, and their ability to do so should
24 be enhanced.
- 25 4. The companies' core market strengths are complementary, with
26 MCI's strength as a provider of large enterprise services and IP-
27 based services paired with Verizon's strengths as a provider of
28 local bandwidth, wireless services, CPE and related services, and
29 network integration. The combination of the two companies
30 promises more immediate efficiencies and long-term innovations
31 than either company could achieve on its own.

- 1 5. Finally, because the companies' assets and capabilities are
2 complementary, and because the combined entity will face
3 competition from a number of diverse competitors in the enterprise
4 segment, the transaction will not obstruct or impair competition in
5 that segment of the communications market. Small business and
6 residential customers also have growing competition from inter-
7 modal and other competitors. And MCI's consumer segment of
8 the mass market is already declining and would continue to do so
9 absent this transaction. Therefore, the transaction also will not
10 have anti-competitive effects in the mass-market segment.

11 **Q. WILL THE MERGER IMPROVE VERIZON'S ABILITY TO COMPETE**
12 **IN AREAS OF ARIZONA WHERE IT IS NOT THE ILEC?**

13 **A. Yes. By acquiring MCI, Verizon greatly increases its ability to compete with**
14 Qwest in both Phoenix and Tucson.³⁰ Moreover, one of the main reasons why
15 Verizon is acquiring MCI is to compete nationwide for enterprise customers that
16 want national and indeed global service. Many of those customers are located
17 outside of Verizon's traditional ILEC service territory, and Verizon will have a
18 strong incentive post-merger to maintain MCI's nationwide and worldwide
19 enterprise business.

20 [REDACTED]

21 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

22 **A. For all of the reasons outlined above and the showing that the Verizon-MCI merger will**
23 not impair the financial status of the companies, prevent them from attracting capital at
24 fair and reasonable terms, or impair their ability to provide safe, reasonable and adequate
25 service, it satisfies the requirements of A.A.C. R14-2-803(C), is in the public interest, and
26 should be approved by the ACC.

³⁰ Verizon already competes with Qwest in Phoenix and several adjoining areas, and Tucson, through its Verizon Avenue affiliate.

1 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

2 A. Yes.

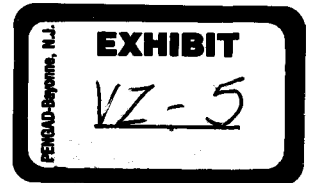
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Dr. Kenneth Gordon, as of April 2001, is a Special Consultant with National Economic Research Associates, Inc. specializing in utility regulation and related issues. Prior to that date, Dr. Gordon was a Senior Vice President with National Economic Research Associates. He was Chairman of the Massachusetts Department of Public Utilities from January 1993 to October of 1995. He came to the Massachusetts Commission from the Maine Public Utilities Commission, where he held the office of Chairman from 1988 through the end of 1992. Prior to that, he was an Industry Economist at the Federal Communications Commission's Office of Plans and Policies. Prior to that, he taught at several colleges since 1965, the most recent position having been at Smith College.

Dr. Gordon was an active member of the National Association of Regulatory Utility Commissioners (NARUC) and served as president of that organization in 1992. He was also a member of the Executive Committee, and the Committee on Communications of NARUC. He has served as Chairman of the New England Conference of Public Utilities Commissioners Telecommunications Committee, and is a former Chairman of the Power Planning Committee of the New England Governors' Conference. He currently also serves on several boards and committees. Dr. Gordon has authored a number of publications and lectures widely on topics related to utility regulation.

Dr. Gordon is a graduate of Dartmouth College and holds a doctorate in economics from the University of Chicago.

EDUCATION

University of Chicago	Ph.D	1973
University of Chicago	M.A.	1963
Dartmouth College	A.B.	1960

EMPLOYMENT

April 2001 -	National Economic Research Associates, Inc., Cambridge, MA <u>Special Consultant</u>
August 1996 – March 2001	National Economic Research Associates, Inc., Cambridge, MA <u>Senior Vice President</u>
November 1995 – July 1996	National Economic Research Associates, Inc., Washington, D.C. <u>Senior Vice President</u>
October 1995	Consulting Economist
January 1993 - October 1995	Massachusetts Department of Public Utilities <u>Chairman</u>
October 1988- December 1992	Maine Public Utilities Commission <u>Chairman</u>
1980 - 1988	Federal Communications Commission, Office of Plans and Policy <u>Industry Economist</u>
1965 - 1980	University and College Teaching (most recently at Smith College)
1963 - 1964	University of Chicago <u>Research Associate</u>

CURRENT APPOINTMENTS AND MEMBERSHIPS

Telecommunications Policy Research Conference

Chair, 1995-1996

Board Member, 1994

Energy Modeling Forum (EMF 15, A Competitive Electricity Industry),
Stanford University

Member

American Economic Association

Transportation and Public Utilities Group, AEA

PAST APPOINTMENTS AND MEMBERSHIPS

National Association of Regulatory Utility Commissioners

Communications Committee, 1990 - 1995

Executive Committee, 1991-1995

President, 1992

New England Conference of Public Utility Commissioners

Power Planning Committee

Chairman

Governor's Electric Utility Market Reform Task Force

Co-Chairman

Boston University Telecommunications Forum

Advisor

**Center for Public Resources, Legal Program to Develop
Alternatives to Litigation**

Chairman, Utilities Committee

**Office of Technology Assessment, Advisory Panel on International
Telecommunications Networks**

Bellcore Advisory Committee,

Member and Chairman, 1993 to 1996.

ACTIVITIES

Participant in numerous regional and state committees, organizations, and task forces.

Participant in various NARUC/DOE conferences on gas and electricity issues.

Frequent speaker on electric, telephone and environmental issues nationally.

TESTIMONIES

Before the State of Maine, Public Utilities Commission, Testimony on behalf of Verizon Communications Inc. and MCI Inc. Docket No. 2005-154. August 19, 2005. Subject: merger policy.

Before the Alberta Energy and Utilities Board, Evidence on behalf of ATCO Gas, ATCO Electric, and ATCO Pipelines. Dockets No. 1399997 and 1400690. June 30, 2005. Subject: ratemaking policy.

Before the State of Vermont, Public Service Board, Testimony on behalf of Verizon Communications Inc. and MCI Inc. Docket No. 7056. June 17, 2005. Subject: merger policy.

Before the Connecticut Department of Public Utility Control, on behalf of Southern Connecticut Gas Company, Docket No. 05-03-17. April 29, 2005. Subject: ratemaking policy with respect to merger savings.

Before the Public Service Commission of the State of Mississippi, Testimony on behalf of Verizon Communications Inc. and MCI, Inc. Docket No. _____. April 19, 2005. Subject: merger policy.

Before the Public Service Commission of the State of Colorado, Testimony on behalf of Verizon Communications Inc. and MCI, Inc. Docket No. _____. April 15, 2005. Subject: merger policy.

Before the Illinois Commerce Commission, Testimony on behalf of Nicor Gas Company. Docket No. 04-0779. November 1, 2004. Subject: Ratemaking policy.

Rebuttal testimony before the Arizona Corporation Commission on behalf of Arizona Public Service Company on appropriate regulatory policy following a reversal in policy direction by the regulator. March 30, 2004.

Prefiled Rebuttal testimony before the Public Utilities Commission of Nevada, Sierra Pacific Power Company's 2003 General Rate Case regarding proper regulatory treatment of merger savings and costs. March 29, 2004.

Before the Nevada Public Utilities Commission on behalf of Nevada Power Company, rebuttal testimony on appropriate regulation policy for the recovery of merger-related costs. February 5, 2004.

Before the Connecticut Department of Public Utility Control, on behalf of Southern Connecticut Gas Company, direct testimony on the role of exogenous cost recovery in a comprehensive incentive rate plan, Docket No. 03-11-20. December 9, 2003.

Before the Florida Public Service Commission on behalf of Verizon Florida Inc., Bell South Telecom, and Sprint-Florida, Docket No. 030867-TL, 030868-TL, 030869-TL and 030961-TI, rebuttal testimony on rate rebalancing. November 19, 2003.

Before the Nevada Public Service Commission on behalf of Nevada Power Company, testimony regarding appropriate rate making policy for the recovery of merger-related costs. October 1, 2003.

Before the Florida Public Service Commission on behalf of Verizon Florida Inc., Bell South Telecom, and Sprint-Florida, Docket No. 030868-TL, direct testimony on rate rebalancing. August 27, 2003.

Before the Arizona Corporation Commission, on behalf of Arizona Public Service Company, Docket Nos. 99-09-03PH02, 99-04-18 PH03, 01-04-04), direct testimony on the proper regulatory policy framework and the importance of credible regulatory commitments. June 27, 2003.

Before the New York State Public Service Commission, on behalf of Rochester Gas & Electric Company, direct testimony regarding the determination of merger-enabled savings. May 16, 2003.

Before the Connecticut Department of Public Utility Control, on behalf of Connecticut Natural Gas Corporation and the Southern Connecticut Gas Company, Docket Nos. 99-09-03PH02, 99-04-18PH03 and 01-04-04, direct testimony regarding the determination of merger-enabled gas cost savings. April 28, 2003. Refiled on June 10, 2003.

Before the New York State Public Service Commission, Case No. 02-G-1553, letter to CFO on the problems and challenges associated with implementing incentive regulation. Letter was included as Exh. ____ (JSF-1) to testimony of Joan S. Freilich. November 27, 2002.

Before the Iowa Utilities Board, on behalf of Iowa Telecommunications Services, Inc., rebuttal testimony regarding economic support of the company's rate adjustment proposal. August 6, 2002.

Before the Public Utilities Commission of Ohio, on behalf of the Cincinnati Gas & Electric (Company), Case No. 00-813-EL-EDI and 01-2053-EL-ATA, direct testimony on the imposition of a moratorium on minimum stay requirements with respect to switching between default (POLR) service and competitive service. Filed June 4, 2002.

Before the Iowa Utilities Board, on behalf of Iowa Telecommunications Services, Inc., direct testimony regarding economic support of the company's rate adjustment proposal. May 24, 2002.

Before the Florida legislature, on behalf of Bell South (Florida), oral testimony on rate rebalancing issues in telecommunications. Presented on January 30, 2002.

Before the Public Utilities Subcommittee of the Maryland House Environmental Matters Committee, on behalf of Southern Maryland Electric Cooperative and Choptank Electric Cooperative, testimony on affiliate issues relating to cooperatives' participation in non-core markets. Filed January 22, 2002.

Before the Indiana Utilities Regulatory Commission on behalf of Citizens Gas & Coke Utility and Indiana Gas Co., Inc., Case Nos. 37394GC50S1 and 37399GC50S1. Affidavit on why the use of RFP bids as a transfer price is appropriate. Filed December 10, 2001.

Before the Alberta Energy & Utilities Board, on behalf of EPCOR Transmission Inc., rebuttal testimony addressing code of conduct issues. November 2, 2001.

Before the Illinois Commerce Commission on behalf of Commonwealth Edison Company, Docket No. 01-0423, surrebuttal testimony on designing delivery service tariffs in a way that support economic efficiency. October 24, 2001.

Before the Illinois Commerce Commission on behalf of Commonwealth Edison Company, Docket No. 01-0423, rebuttal testimony on designing delivery services in a way that supports economic efficiency. September 18, 2001.

Before the New Jersey Board of Public Utilities on behalf of Verizon New Jersey, additional rebuttal testimony on structural separation and code of conduct issues, Docket No. TO01020095. Panel testimony co-sponsored by C. Lincoln Hoewing. August 17, 2001.

Before the Alberta Energy & Utilities Board, on behalf of Atco Group of Companies, Affiliate Proceeding Before the Alberta Energy and Utilities Board, Testimony of Rebuttal Evidence, submitted August 3, 2001

Before the Massachusetts Department of Telecommunications and Energy, on behalf of Berkshire Gas Company, direct testimony on benefits of incentive ratemaking and policy rational supporting company's plan. July 17, 2001.

Before the New Jersey Board of Public Utilities on behalf of Verizon New Jersey, Surrebuttal Testimony on structural separation and code of conduct issues (Docket No. TO01020095). Filed June 15, 2001 (panel testimony co-sponsored by C. Lincoln Hoewing).

Rebuttal Testimony on behalf of Qwest Corporation, Application of Authority to provide in-region interLATA service (Docket No. INU-00-2). Filed May 23, 2001.

Before the State of New York State Public Service Commission on behalf of Verizon New York (Case No. 00-C-1945): Initial panel testimony on the New York State competitive marketplace. May 15, 2001 (co-sponsored with William E. Taylor).

Before the Commonwealth of Kentucky Public Service Commission on behalf of E.ON AG, Powergen plc, LG&E Energy Corp., Louisville Gas and Electric Company and Kentucky Utilities Company, (Case No. 2001-104). Direct testimony on the benefits to consumer's resulting from the acquisition of Powergen by E.ON AG. May 14, 2001.

Before the New York State Public Service Commission on behalf of New York State and Gas Corporation, Affidavit on the proper treatment of proprietary competitive information by regulators. Affidavit filed April 23, 2001.

Before the Virgin Islands Public Services Commission, Government of the Virgin Island of the United States (PSC Docket No. 526) on behalf of Innovative Telephone, Rebuttal testimony

regarding rural exemption, request for interconnection for Innovative Telephone. Filed April 10, 2001.

Before the State of New York Public Service Commission on behalf of Energy East Corporation, RGS Energy Group, Inc., New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, and Eagle Merger Corp. Affidavit filed March 23, 2001.

Before the Indiana Utility Regulatory Commission on behalf of PSI Energy, Inc. (IURC Docket No. 41445-S1): Rebuttal testimony on the continued use of a purchased power tracker. Filed February 8, 2001.

Before the Pennsylvania Public Utility Commission on behalf of Verizon PA: Rebuttal testimony on why the structural separation model used in electricity does not apply to telecommunications. October 30, 2000.

Before the State of New York Public Service Commission on behalf of New York State Electric & Gas Corporation (Case 96-E-0891): Rebuttal testimony on market power analyses used in setting the backout credit. October 30, 2000. (Cosponsored with David Kathan.)

Before the Connecticut Department of Public Utility Control, on behalf of Connecticut Natural Gas Corporation (Docket No. 99-09-03, Phase II): Rebuttal testimony on role of incentive ratemaking. October 11, 2000.

Before the New York Public Utilities Commission on behalf of New York State Electric & Gas Corporation (Case 96-E-0891): Direct testimony on whether the backout credit set in a stipulation continues to be proper. October 4, 2000. (Cosponsored with David Kathan.)

Before the Virginia State Corporation Commission on behalf of Appalachian Power d/b/a/ American Electric Power Company (Docket Case No. PUA980020): Direct testimony regarding use of "asymmetric" transfer price rules. Filed September 20, 2000.

Before the Alberta Energy and Utilities Board, on behalf of ATCO Gas, ATCO Pipelines, and ATCO Electric: Direct testimony addressing affiliate issues. August 31, 2000.

Before the Iowa Utilities Board on behalf of Qwest Corporation (Docket No. INV-00-3): Direct testimony on deregulation of local directory assistance services. August 11, 2000.

Before the Connecticut Department of Public Utility Control on behalf of the Southern Connecticut Gas Company (Docket No. 99-04-18, Phase III): Late-filed Exhibit No. 159 (direct testimony) on the proper design of an incentive ratemaking plan. August 11, 2000.

Before the Connecticut Department of Public Utility Control on behalf of Connecticut Natural Gas Corporation (Docket No. 99-09-03 Phase II): Prefiled supplemental testimony addressing incentive rate-making issues. Filed August 11, 2000.

Before the Maine Public Utilities Commission on behalf of Central Maine Power Company. Surrebuttal testimony regarding the proper role of incentive ratemaking. August 10, 2000.

Before the Pennsylvania Public Utility Commission on behalf of Bell Atlantic PA (now Verizon PA): Direct testimony on the costs and problems with structural separation in telecommunications. June 26, 2000.

Before the Maine Public Utilities Commission on behalf of Central Maine Power Company (Docket No. 99-666): Rebuttal testimony on incentive rate-making issues. Filed June 22, 2000.

Before the Connecticut Department of Public Utility Control, The Southern Connecticut Gas Company Bench Request/Late file Exhibit (direct testimony) on proper implementation of incentive ratemaking. May 24, 2000.

Before the Public Utilities Commission of Ohio, on behalf of the Cincinnati Gas & Electric Company (Case No. 99-1658-EL-ETP): Supplemental testimony addressing shopping incentive and market power issues. Filed May 1, 2000.

Before the New York Public Service Commission on behalf of New York State Electric & Gas Corporation (NYSEG). Affidavit on the proper calculation of the billing credit customers would receive that switch. Filed April 20, 2000.

Before the Public Utilities Commission of Ohio, on behalf of the Cincinnati Gas & Electric Company: Direct testimony addressing shopping incentive and market power issues. Filed December 28, 1999.

Before the Federal Communications Commission, on behalf of Virgin Islands Telephone: Comments addressing Federal universal service support in the U.S. Virgin Islands. Filed December 19, 1999.

Before the Connecticut Department of Public Utility Control, on behalf of Connecticut Natural Gas Corp.: Direct testimony on performance based ratemaking. Filed November 8, 1999.

Before the Public Service Commission of Maryland, on behalf of Baltimore Gas and Electric Co., etc.: Reply testimony on "code of conduct" issues. Filed October 26, 1999.

Before the Illinois Commerce Commission, on behalf of Illinois Power Company: Rebuttal testimony addressing the pricing of metering and billing services. Filed October 21, 1999.

Before the Maine Public Utility Commission, on behalf of CMP Group, Inc.: Rebuttal testimony on issues related to acquisition of CMP by Energy East. Filed October 13, 1999.

Before the Illinois Commerce Commission, on behalf of Illinois Power Company: Direct testimony addressing the proper pricing of metering and billing services. Filed October 8, 1999.

Before the Public Service Commission of Maryland, on behalf of Baltimore Gas and Electric Co., etc.: Direct testimony on "code of conduct" issues. Filed October 1, 1999.

Before the Maine Public Utilities Commission, on behalf of Central Maine Power Co.: Direct testimony addressing the proposed alternative ratemaking plan. Filed September 30, 1999.

Before the Michigan Public Service Commission, on behalf of Ameritech Michigan: Direct testimony regarding economic consequences resulting from full avoided cost discount as applied to resale of existing contracts. Filed September 27, 1999.

Before the Public Service Commission of West Virginia, on behalf of Allegheny Power and American Electric Power: Rebuttal testimony on "code of conduct" issues. Filed July 14, 1999.

Before the Maine Public Utilities Commission, on behalf of Central Maine Power Co.: Direct testimony on the acquisition of CMP by Energy East. Filed July 1, 1999.

Before the Public Service Commission of West Virginia, on behalf of Allegheny Power and American Electric Power: Direct testimony on "code of conduct" issues. Filed June 14, 1999.

Before the Illinois Commerce Commission, on behalf of Commonwealth Edison: Rebuttal testimony addressing the design of delivery services tariffs. Filed May 10, 1999.

Before the Subcommittee on Energy and Power, on behalf of National Economic Research Associates: Statement addressing electric restructuring market power issues. Filed May 6, 1999.

Before the New Jersey Public Utilities Board, on behalf of the Edison Electric Institute: Direct testimony on the PUC's draft affiliate relations standards. Filed May 3, 1999.

Before the US District Court, Western District of Pennsylvania, on behalf of Allegheny Energy, Inc.: Expert report on regulatory issues regarding the recovery of stranded costs, filed May 1989

Expert report, on behalf of ICG/Teleport addressing the way in which Denver's ordinance allocates costs among users of public rights-of-way. Filed April 21, 1999.

Before the Ohio Senate Ways and Means Committee, on behalf of the Ohio Electric Utility Institute: Direct testimony regarding restructuring of Ohio electricity industry. Filed April 20, 1999.

Before the Federal Energy Regulatory Commission, on behalf of the Central Vermont Public Service Corporation: Rebuttal testimony regarding CVPSC's reasonable expectation to serve its Connecticut Valley affiliate. Filed April 8, 1999.

Before the Joint Committee on Utilities and Energy, on behalf of the Central Maine Power Company: Direct testimony on rate design for recovery of stranded costs. Filed March 23, 1999.

Before the Illinois Commerce Commission, on behalf of the Commonwealth Edison Company: Direct testimony on Commonwealth Edison's delivery service tariffs. Filed March 1, 1999.

Before the Indiana Utility Regulatory Commission, on behalf of Ameritech Indiana: Direct testimony on interconnection issues between RBOC and independent LECs. Filed February 19, 1999.

Before the Indiana Utility Regulatory Commission, on behalf of Ameritech Indiana: Direct testimony on competitive flexibility and alternative rate plan issues. Filed January 29, 1999.

Before the Rhode Island Public Utilities Commission, on behalf of Bell Atlantic-Rhode Island: Rebuttal testimony regarding economic consequences of granting a request by CTC to assume BA-RI retail contract without customer penalty or termination charges. Filed December 4, 1998.

Before the Michigan Public Service Commission, on behalf of Ameritech Michigan: Surrebuttal testimony regarding interconnection agreement. Filed November 9, 1998.

Before the Michigan Public Service Commission, on behalf of Ameritech Michigan: Direct testimony regarding interconnection dispute with a CLEC. Filed October 20, 1998.

Before the Wisconsin Public Service Commission, on behalf of the Edison Electric Industry: Surrebuttal testimony on utility diversification issues. Filed October 16, 1998.

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INCIDENTAL TEACHING AND LECTURING

University and College

Yale School of Management and Organization
Harvard Law School, Telecommunications Seminar
Suffolk University Law School
University of Maine
Boston University

Other

Edison Electric Institute
(Electricity Consumers Resource Council)

March 10, 2005

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER

Chairman

MARC SPITZER

Commissioner

WILLIAM A. MUNDELL

Commissioner

MIKE GLEASON

Commissioner

KRISTIN K. MAYES

Commissioner

IN THE MATTER OF THE APPLICATION OF	)	DOCKET NOS.	T-01846B-05-0279
VERIZON CALIFORNIA INC., VERIZON	)		T-03258A-05-0279
SELECT SERVICES INC, ONEPOINT	)		T-03475A-05-0279
COMMUNICATIONS - COLORADO, L.L.C.	)		T-03289A-05-0279
DBA VERIZON AVENUE, BELL ATLANTIC	)		T-03198A-05-0279
COMMUNICATIONS, INC. DBA VERIZON	)		T-03574A-05-0279
LONG DISTANCE, NYNEX LONG DISTANCE	)		T-02431A-05-0279
COMPANY DBA VERIZON ENTERPRISE	)		T-03197A-05-0279
SOLUTIONS, MCIMETRO ACCESS	)		T-02533A-05-0279
TRANSMISSION SERVICES, L.L.C., MCI	)		T-03394A-05-0279
WORLDCOM NETWORK SERVICES, INC.,	)		T-03291A-05-0279
TTI NATIONAL, INC., TELECONNECT LONG)		
DISTANCE SERVICES AND SYSTEMS)		
COMPANY DBA TELECOM*USA, MCI)		
WORLDCOM COMMUNICATIONS, INC.)		
AND INTERMEDIA COMMUNICATIONS,)		
INC. FOR APPROVAL OF A REORGANIZATION.)		

DIRECT

TESTIMONY

OF

ARMANDO FIMBRES

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 2, 2005

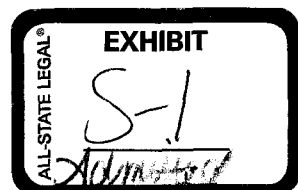


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EXECUTIVE SUMMARY
VERIZON COMMUNICATIONS, INC./MCI, INC.

DOCKET NOS. T-01846B-05-0279, T-03258A-05-0279, T-03475A-05-0279, T-03289A-05-0279, T-03198A-05-0279, T-03574A-05-0279, T-02431A-05-0279, T-03197A-05-0279, T-02533A-05-0279, T-03394A-05-0279, T-03291A-05-0279

This proposed merger will combine the operations and networks of one of the largest Incumbent Local Exchange Carriers (ILECs), interexchange carriers and wireless providers in the United States, Verizon Communications, Inc. ("Verizon"), with one of the largest Competitive Local Exchange Carriers ("CLECs") and interexchange carriers in the United States, MCI, Inc. ("MCI").

Unlike states where Verizon is the dominant or a major incumbent local exchange carrier, with considerable overlap between Verizon's and MCI's operations, there is almost no overlap in Verizon's and MCI's Arizona operations. Consequently, combining the separate operations of Verizon and MCI would not appear to result in any duplicate operations in Arizona that would require force reductions and the realignment of resources.

Verizon's local exchange presence in Arizona is largely limited to a small ILEC area on Arizona's western border; while MCI offers CLEC service to a number of Arizona customers largely within Qwest's service territory. However, MCI has already decided to curtail its mass market CLEC operations in Arizona.

Verizon does not have a strong presence in the Arizona enterprise market. MCI, however, has a very strong presence in the Arizona enterprise market. Verizon clearly benefits by its ability to enter this market in Arizona through an established provider such as MCI. Both carriers are optimistic that the merger will strengthen their presence in this market. Given the commitment of both entities to the enterprise market, Staff believes the merger will likely benefit competition in the enterprise market.

Verizon also is certificated to provide interexchange service through an affiliate in Arizona, but it has no significant presence in Arizona. MCI has a very significant presence in the Arizona long distance market, and continues to be one of the predominant interexchange providers in the state. MCI will continue to offer interexchange service to customers in Arizona as a subsidiary of Verizon after the merger.

Since the operations of Verizon and MCI are complementary at this time in Arizona, there are likely to be no anticompetitive impacts in the Arizona local exchange or interexchange markets. One concern at this time is the small area served by Verizon as an ILEC along Arizona's western border. While MCImetro is certificated to provide CLEC service, customers are not yet being served in Verizon's ILEC area. Staff is recommending that MCImetro be required to obtain the Commission's approval before providing service as a CLEC in Verizon's ILEC territory.

Staff recommends approval of the Verizon/MCI merger application.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Armando Fimbres. I am a Public Utilities Analyst IV employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst IV.

A. In my capacity as a Public Utilities Analyst IV, I provide information and analysis to Staff on telecommunications tariff filings, emerging industry issues, such as VoIP, and matters pertaining to major applications, such as the merger application filed by Verizon and MCI.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science degree from the University of Arizona in 1972 and have taken business and management courses at Seattle University, Northwestern University and the University of Southern California. I was employed for nearly twenty-nine years in Bell System or Bell System-derived companies, such as Western Electric, Pacific Northwest Bell, U S WEST and Qwest. The last twenty years of my Bell System telecommunications experience were in operations planning, corporate planning, or strategic planning roles with a special emphasis from 1994 to 2000 on competitive and strategic analysis for the Consumer Services Marketing division of U S WEST and similarly from 2000 to 2001 for Qwest. I have been with the Arizona Corporation Commission Utilities Division since April 2004.

1 **Q. What is the scope of your testimony in this case?**

2 A. I will address the competitive environment in which the Verizon/MCI application is being
3 evaluated. My testimony will primarily focus on the merger's impact upon the Arizona
4 intrastate long distance and local exchange markets.

5
6 **BACKGROUND**

7 **Q. What is the purpose of your testimony?**

8 A. In addition to providing information on the general competitive environment in which the
9 Verizon/MCI application is being evaluated, I will provide specifics regarding Verizon's
10 and MCI's position within Arizona telecommunications markets and try to assess the
11 impacts the merger is likely to have on Arizona consumers.

12
13 **Q. Explain the primary information sources used in your analysis.**

14 A. I have relied on information obtained in other proceedings such as the Qwest Filing of
15 Renewed Price Regulation Plan, Docket No. T-01051B-03-0454, and the Federal
16 Triennial Review ("TRO"), Docket No. T-00000A-03-0369, as well as information
17 provided by the Applicants in this proceeding. I have also made use of Annual Report
18 information filed by all telecommunication providers with the Commission.

19
20 **GENERAL COMPETITIVE ENVIRONMENT**

21 **Q. What is the general competitive environment pertaining to the Verizon/MCI**
22 **application?**

23 A. Given the growth characteristics of the Arizona market, Staff believes that while
24 competition has increased, the general state of local exchange competition is not where it
25 should be nine years since the Federal Telecommunications Act of 1996 was enacted. The
26 competitive environment in which this application is being evaluated is being impacted by

1 a number of factors within and outside the local exchange market. Many of the general
2 competitive factors might be viewed as relevant to the merger agreement.

3
4 **Q. Can you describe some of the key factors in the general competitive environment?**

5 A. The Verizon/MCI merger application is being evaluated in an environment that Staff
6 summarizes as follows:

7 1. A very important general factor in Arizona's competitive environment is market size.
8 Arizona is second only in size to Washington State within Qwest's incumbent local
9 exchange carrier ("ILEC") region. Arizona's position near or at the top in growth
10 nationally should be a magnet for local exchange competition and deployment of
11 many telecommunications alternatives and technologies.

12 2. Nonetheless, Staff believes that local exchange competition in its traditional sense has
13 slowed and some may argue that the size of the local exchange market is actually in
14 decline. At the time of the 1984 AT&T Divestiture, the penetration of main lines in
15 homes was believed to be very high, approaching a main line in every home, and the
16 wireline provider focus turned to providing additional lines. Competitive alternatives
17 have since impacted both main and additional line markets. Even more significant has
18 been the impact on the long distance market.

19 3. Wireline competition, associated with local exchange service and enabled by the 1996
20 Telecommunications Act, has slowed, in part because of changes in the Federal
21 Communications Commission's ("FCC") Unbundled Network Element ("UNE") rules
22 and in part because of the continuing evolution of technology in areas of customer
23 demand that are difficult to satisfy with traditional wireline service.

24 4. Wireless competition has experienced enormous growth over the last few years. In
25 Arizona, the number of wireless phones is approaching the number of wireline

1 phones². Wireless and internet email are believed to have been significant factors in
2 the downward movement of long distance rates.

3 5. Voice over Internet Protocol ("VoIP"), Wireless Fidelity ("WiFi") and Worldwide
4 Interoperability of Microwave Access ("WiMAX") are perhaps the most current
5 examples of technologies that are impacting the local exchange and long distance
6 markets. More recently, Interactive Protocol-based TV ("IPTV") has gained
7 considerable attention. All are technologies that may not yet have much direct impact
8 on local exchange wireline voice services but, nonetheless, compete for the
9 discretionary end-user dollars available for local exchange and long distance services.

10 6. Some weight must also be given to the concern being raised in Congress³ and perhaps
11 more generally regarding the consolidation and reorganization that appears to be
12 taking place in the telecommunications industry. Cox Communications has been taken
13 private; Cingular has acquired AT&T Wireless; Sprint and Nextel have merged; and
14 two major merger applications are in process – SBC/AT&T and Verizon/MCI.
15 Whether these changes result in healthier and more robust competitors that ultimately
16 advantage competitive markets remains to be seen. What does seem likely is that
17 several significant brands and, thereby, associated options will be removed from the
18 options once available to customers. Customers who may not appreciate being
19 transitioned from one provider to another through rules governing mergers and
20 acquisitions may find that their traditional choices are suddenly more limited.

² 12/22/04, "Federal Communications Commission Releases Data On Local Telephone Competition",
Table 9, Table 13

³ March 2, 2005, IDG News Service, "U.S. lawmakers question telecom mergers"

1 **Q. How many competitive local exchange carriers (“CLECs”) appear to be competing in**
2 **Arizona’s local exchange market?**

3 A. My analysis indicates that as of June 2004, 42 CLECs were providing switched access
4 lines to end-users. The range of participation, however, appears to be quite broad. For
5 example, the top 10 CLECs hold business main listings that equal 92.4 percent of all
6 CLEC business main listings. The top 10 CLECs hold residence main listings that
7 approximately equal 99.4 percent of all CLEC residence main listings. Only 5 CLECs
8 appear in both top 10 lists – AT&T, Arizona DialTone, Cox, MCI, and McLeodUSA.
9 Verizon is not in either top 10 list in Arizona.

10
11 **Q. How many providers appear to be providing long distance services in Arizona?**

12 A. Validating the number of long distance providers or Interexchange Providers (“IXCs”) is
13 more difficult than validating the number of CLECs, however, there are 33 IXCs and 286
14 Long Distance Resellers listed on the Commission’s website⁴.

15
16 **MCI’S COMPETITIVE SITUATION**

17 **Q. What is MCI’s general competitive situation?**

18 A. MCI’s competitive situation has undergone considerable change since its legal challenges
19 precipitated the divestiture of AT&T in 1984. The antitrust lawsuit that it filed against
20 AT&T was the driving force behind the AT&T divestiture and can be credited for
21 reshaping telecommunications in the United States.

22
23 By the mid-1990s, MCI appeared to be well on its way to becoming a powerhouse
24 telecommunications provider capable of matching AT&T in long distance and local
25 exchange services. Since that time, however, MCI has undergone many changes leading

⁴ http://www.cc.state.az.us/utility/utility_list/IXC_list.pdf

1 to its current acquisition by Verizon. In 2002, MCI WorldCom reached a pivotal point in
2 its history by filing for chapter 11 bankruptcy, emerging in 2004 under its original name
3 of MCI.

4
5 With the general revenue decline in the long distance market, MCI is clearly no longer in
6 the strong competitive position it had reached in the mid-1990s, however, Staff believes
7 that MCI continues to be a major competitor in the Enterprise Market. In Mass Markets,
8 nonetheless, MCI has chosen a similar path pursued by AT&T – to discontinue⁵ marketing
9 to local exchange residence customers.

10
11 **Q. What is MCI's competitive situation specific to Arizona?**

12 A. The available Listings and Local Exchange Routing Guide ("LERG") information⁶
13 indicates that MCI⁷ is one of the top CLECs in Arizona. Based on this information, MCI
14 would have to be considered one of the top CLECs providing local exchange service to the
15 business market. In the residence market, MCI is noteworthy but well below several
16 competitors.

17
18 **Q. Is MCI currently providing CLEC services in any Verizon ILEC areas?**

19 A. MCI Witness Beach stated that MCI is not currently providing any CLEC services in
20 Verizon's ILEC service area. MCI's response to Staff data requests also stated that MCI
21 has not requested interconnection agreements with Verizon California.
22

⁵ The Washington Times, August 6, 2004, "MCI set to downsize residential service"

⁶ June 2004

⁷ MCI only provides local exchange service in Arizona through MCImetro

1 **Q. Can MCI's local exchange market share in Arizona be estimated?**

2 A. Using Annual Report information⁸, I developed an estimate of MCI's 2003 revenue
3 market share in Exhibit 1. The MCI information includes revenue from Arizona affiliates
4 but is dominated by its long distance provider. MCI clearly has a major revenue presence
5 in Arizona. It's reasonable to assume, however, that MCI's residence access line and
6 corresponding revenue position has declined through normal churn since MCI is no longer
7 marketing to the residence market.

8
9 MCI's access line market share can also be gauged using the 2003 annual report
10 information. Exhibit 2 suggests that MCI has significant and measurable access line
11 share, however, information provided by MCI in response to Staff fifth set of data requests
12 indicates that MCI's access lines have declined by approximately REDACTED.

13
14 **Q: Do you have any comments about the MCI facilities in Arizona?**

15 A: MCI Witness Beach mentions that MCI has 2 end-offices in Arizona⁹. That agrees with
16 my LERG analysis. My analysis also indicates, however, that MCI's ratio of NPA NXXs
17 to end-offices is extremely high in Arizona. In general, any end-office with 10 highly
18 utilized NPA NXXs is a heavily loaded and highly utilized end-office. This means that a
19 ratio near or higher than 10:1 deserves some clarification. The number of local exchange
20 access lines served by MCI¹⁰ in Arizona suggests that the number resources assigned to
21 MCI in Arizona far exceed their current needs. This suggests an extraordinary number of
22 highly under utilized NPA NXXs. In the last few years, Arizona has gone from two NPAs
23 to five NPAs in order to address the growing need for more numbers by the PSTN (public
24 telephone switched network). Staff believes that PSTN numbers are too scarce to leave so

⁸ MCI provided updated annual report information in response to Staff's fifth set of data requests

⁹ Page 7, Direct Testimony of Michael Beach

¹⁰ 2004 MCImetro annual report

highly under utilized. Therefore, MCI should be required to review its numbering resources in the 480, 602 and 623 NPAs.

Q. Please summarize your conclusions about MCI's competitive situation in Arizona.

- A. (1) MCI is a significant CLEC providing service to business customers in Arizona.
- (2) MCI is a noteworthy CLEC providing service to residence customers in Arizona.
- (3) MCI's CLEC position serving residence customers is likely not growing given its announcement to discontinue marketing to residence customers in Arizona and other states.
- (4) MCI's CLEC local exchange services have been very dependent on UNE-P services.
- (5) MCI's strong position in long distance service has diminished due in part to wireless and internet alternatives, however, its revenue position in Arizona suggests that MCI remains a major force in long distance.

VERIZON'S COMPETITIVE SITUATION

Q. What is Verizon's general competitive situation?

A. Verizon has largely evolved from the Nynex and Bell Atlantic¹¹ RBOCs, divested from AT&T in 1984, into a holding company that also includes major operations in wireless and long distance. Verizon serves over 50 million wireline access lines in 29 states¹². The long distance operations of Verizon serve over 17 million lines nationally. Verizon Wireless serves over 47 million customers nationally. With over \$71 Billion in total revenues, Verizon can reasonably be considered to have all the essential resources and customer base to compete in any segment of the expanding communications industry.

Q. What is Verizon's competitive situation specific to Arizona?

¹¹ GTE was acquired by Bell Atlantic in 1998

¹² <http://investor.verizon.com/business/wireline.aspx>

1 A. Verizon has five regulated entities in Arizona, only two of which provide local exchange
2 services – Verizon California Inc. and One Point Communications¹³. The total lines
3 served are 99 percent within the Verizon California ILEC area. One Point
4 Communications is a very small, niche provider in the multi-dwelling market. Had Bell
5 Atlantic not acquired GTE on Arizona's western border, Verizon's competitive presence
6 today might be limited to long distance and wireless.

7
8 **Q. Can Verizon's local exchange market share in Arizona be estimated?**

9 A. Studying Exhibits 1 and 2 confirms that Verizon's presence in the statewide local
10 exchange market in Arizona is not significant. Verizon is the dominant local exchange
11 provider in one small rural market in Arizona. It serves approximately 8,000 access lines
12 in that market. The extent of competition it is facing in its ILEC service territory is
13 unknown at this time. For the purposes of estimating local exchange market share,
14 Verizon's position is effectively zero percent.

15
16 **Q. Is Verizon currently providing CLEC services outside of its ILEC service area in**
17 **Arizona?**

18 A. Not to any significant degree. To the best of Staff's knowledge, Verizon's affiliate, One
19 Point, provides service to one multi-dwelling unit outside Verizon's Arizona ILEC service
20 territory.

21

¹³ dba Verizon Avenue

1 **Q. Do Verizon's telecommunications operations have any areas of competitive overlap**
2 **with MCI operations?**

3 A. There is virtually no overlap between the operations of the Applicants. While Verizon's
4 ILEC operations do not overlap with MCI CLEC operations, there is some minimal
5 overlap between the Verizon CLEC affiliates and MCI CLEC affiliates. However,
6 because the Verizon CLEC operations are so small Staff considers the overlap
7 insignificant. In long distance there is some overlap, however Verizon's long distance
8 operations in Arizona also appear to be extremely limited at best.

9
10 **Q. Can you please comment on the diversity of Verizon's operations and what impact**
11 **this may have on consumers in Arizona?**

12 A. Verizon has such diverse and extensive operations that Staff can reasonably state Verizon
13 has interests in every area that directly or indirectly impacts telecommunications. The
14 same can be said about most RBOCs and even the major cable providers. The differences
15 are in degrees of emphasis.

16
17 Verizon holds the majority interest in Verizon Wireless which is the 2nd largest national
18 wireless provider behind Cingular (50 million versus 45.5 million¹⁴ subscribers). Verizon
19 has also developed into the 4th largest long distance provider in the US¹⁵, within 3 percent
20 market share of Sprint.

21
22 Verizon also has interests in VoIP, IPTV, Fiber-to-the Premises, Broadband, Information
23 Services, Publishing Services, Wi-Fi, Wi-Max, and Hi-Tech end-user devices to help
24 enable the full spectrum of communications services. To the extent that Verizon develops

¹⁴ http://www.verizonwireless.com/b2c/aboutUs/index.jsp?cm_re=HP%20-%20About%20Us;
http://www.cingular.com/about/company_overview

¹⁵ FCC, Trends in Telephone Service, June 2005, Table 9.6

1 a presence in these areas in Arizona, additional competitive alternatives will be available
2 to consumers, and consumers are likely to benefit. However, in response to Staff data
3 requests, Verizon stated that it has done little post transaction strategic planning at this
4 time, so the extent of Verizon's participation in any of these markets is unknown.

5
6 **Q. Please summarize your conclusions about Verizon's competitive situation in**
7 **Arizona?**

- 8 A. (1) Verizon's presence in the Arizona local exchange market as a CLEC providing
9 service to business customers is insignificant.
10 (2) Verizon's presence in the Arizona local exchange market as a CLEC providing
11 service to residence customers is insignificant.
12 (3) Verizon earns relatively few revenues with its Arizona operations.
13 (4) Verizon's Arizona operations do not have significant overlaps with MCI.
14 (5) Verizon has strong interests in many aspects of communications.
15

16 **SUMMARY AND CONCLUSIONS**

17 **Q. If the merger between Verizon and MCI is approved by the Commission, what could**
18 **be the impact on Arizona telecommunications markets?**

- 19 A. Any traditional analysis of the merger's impact on market structure will indicate that
20 Verizon's and MCI's competitive positions in Arizona do not overlap nor appear to
21 conflict. Therefore, the likelihood that the merger of Verizon and MCI will result in
22 reduced competition in Arizona telecommunications markets is very low. Further, both
23 Verizon's and MCI's witnesses have stated that MCI's affiliates will continue to operate
24 as they did before the merger.
25

1 The combined forces of Verizon and MCI are likely to initially produce a more formidable
2 competitor in the Enterprise Market in Arizona. Indeed, the Companies have indicated a
3 strong desire to focus on this market.

4
5 While Verizon's strength as a local exchange provider in many top markets in the United
6 States would be a welcomed, competitive alternative, neither Verizon nor MCI have made
7 any commitments about increasing their presence in the Arizona local exchange residence
8 market. Therefore, despite the Companies' assertions that benefits will accrue to
9 residence customers in Arizona, the benefits to the mass market cannot be easily
10 quantified at this time.

11
12 With respect to the Arizona long distance market, Staff does not believe that the merger
13 will produce any adverse impacts upon the long distance markets in Arizona. The benefits
14 on competition in this market are difficult to quantify at this time.

15
16 **Q. Will the merger of Verizon and MCI significantly change the market share**
17 **situation?**

18 A. Staff does not believe any measurable, negative market share impacts will occur due to
19 this merger.

20
21 **Q. Is there a way to actually measure the combined market impact of the Verizon and**
22 **MCI merger?**

23 A. Staff used the Herfindahl-Hirschman Index ("HHI") to gauge the level of market
24 concentration. The HHI measures both the number of firms and their degree of inequality.
25 The HHI is the sum of the squares of each firm's market share. This is given by the
26 formula:

$$HHI = \sum_{i=1}^N S_i^2$$

Where S_i is the market share of the i th firm and N is the total number of firms.¹⁶ When this formula is applied to the market shares of the CLECs in Exhibits 2 and 3, HHIs based on Arizona Operating Revenue and Total Access Lines can be derived.

A summary point is that the access line and revenue market shares of Verizon are so low that they have no contribution to an HHI calculation. Very simply, Zero squared is Zero.

Q. Are there general factors that were considered in addition to calculation of an HHI?

A. Staff considered key factors used by the Department of Justice ("DOJ") in merger analysis, such as: 1) The Potential Adverse Competitive Effects of Mergers, 2) Entry Analysis, 3) Efficiencies, and 4) Failure and Exiting Assets. These factors are set forth in sections 2-5 of the DOJ's Horizontal Merger Guidelines¹⁷.

1) The Potential Adverse Competitive Effects of Mergers include the merger's effect on the likelihood of collusion among the relevant firms and the merger's effect on the merged firm's ability to unilaterally exert market power. This merger is unlikely to enhance Verizon/MCI's ability to unilaterally exert market power in the long distance market. This is because the merged firm would still be competing with many other long distance providers in addition to major alternatives, such as wireless and internet communications.

¹⁶ For example, a market consisting of four firms with market shares of 30 percent, 30 percent, 20 percent and 20 percent has an HHI of 2600 ($30^2 + 30^2 + 20^2 + 20^2 = 2600$). The HHI ranges from 10,000 (in the case of a pure monopoly) to a number approaching zero (in the case of a perfectly competitive market). Although it is desirable to include all firms in the calculation, lack of information about small firms is not critical because such firms do not affect the HHI significantly.

¹⁷ <http://www.usdoj.gov/atr/public/guidelines/hmg.htm#50>

1 Much the same is true for the local exchange market. Merging MCI, a CLEC with
2 announced intentions to reduce its competition in the local exchange market, with Verizon
3 will not dramatically alter the competitive dynamics of either the long distance or local
4 exchange market.

5
6 2) Entry Analysis refers to a determination of the ease of entry by new competitive firms
7 into the relevant market. Given the huge capital investments needed to compete as an IXC
8 or as a facilities-based CLEC, entry into either the long distance or local exchange market
9 is quite difficult. This merger appears to have no effect on the ability of other firms to
10 enter the telecom market.

11
12 3) By efficiencies, the DOJ is referring to the idea that the merged firm may be able to
13 realize cost-lowering efficiencies that will enhance its ability to compete. As with most
14 mergers, Verizon and MCI claim that such efficiencies exist. Verizon and MCI have not
15 provided the data that would allow Staff to properly evaluate these claims. However,
16 these claims are plausible. If we assume that there are economies of scale in this industry,
17 then a merged Verizon/MCI would be in a better position to compete than the current
18 smaller entities. If we accept that increases in scale lead to increases in efficiency (and
19 thus lower costs), this merger would make the combined Verizon/MCI a more efficient
20 firm. This would put the merged firm in a better position from which to compete with
21 Qwest, Cox, Sprint, SBC, AT&T and other providers not only in local exchange but in
22 long distance, wireless, broadband and developing markets, such as VoIP, WiFi, WiMAX
23 and IPTV.
24

1 4) The DOJ's Failure and Exiting Assets criteria are not fully relevant in this merger since
2 neither company is failing. The financial health of Verizon minimizes any problems that
3 arise from the problems that have confronted MCI since its 1984 divestiture.

4
5 **Q. What is Staff's conclusion regarding these key factors?**

6 **A.** Staff can summarize its position in the following table.

7

Criteria	VERIZON/MCI merger
Adverse Competitive Effects	Positive or Neutral
Entry Analysis	Neutral
Efficiencies	Positive or Neutral
Failure and Exiting Assets	NA

8
9 Staff believes the Verizon/MCI merger's effect on the state of competition in Arizona's
10 local and long distance markets is unlikely to have a negative impact on Arizona's
11 consumers. The merger should not substantially change the level of concentration in
12 either market.

13
14 **Q. In light of the historic reluctance by the RBOCs to compete with each other, please**
15 **explain why the Commission should not be gravely concerned with the prospect of an**
16 **RBOC purchasing one of the most active CLEC and IXC competitors in Arizona.**

17 **A.** Staff believes that any negative consequences that may flow from the Verizon and MCI
18 merger should not be of grave concern. Since many mergers are based on force reductions
19 and resource allocations, a shift in MCI's strategy or at least its realignment is certainly
20 possible. However, most force reductions and resource allocations are typically driven by
21 the overlapping areas of merging units. Verizon and MCI have almost no overlap in their

1 Arizona operations. The local exchange market and long distance operations of MCI are
2 likely not going to be curtailed any more than they have been already by MCI itself prior
3 to the merger announcement, since the Companies have committed that the MCI affiliates
4 will continue to operate as they did before the merger.

5
6 **Q. What do you see as the resulting company from the Verizon and MCI merger?**

7 A. While it is impossible to be precise about the company that results from this
8 reorganization, two simple observations can be made.

9
10 1 – Verizon intends to invest \$2B in MCI's network¹⁸. No mention is made of MCI
11 investing in Verizon.

12 2 – Verizon and MCI speak publicly about this organization being a merger. This
13 reorganization is really an acquisition of MCI by Verizon.

14
15 While this transaction is being termed a "merger" by many, Mr. Vasington, on behalf of
16 Verizon, while using the term merger throughout his testimony, at two points¹⁹ in this
17 testimony very clearly states that Verizon is acquiring MCI. This is a not so subtle
18 distinction that should be appreciated.

19
20 **Q. Why is the distinction between a merger and an acquisition important?**

21 A. This is important because in some instances much more can be surmised about the
22 competitive moves of the resulting company in the case of an acquisition than in a merger.

23

¹⁸Direct testimony of Paul B. Vasington, page 6, lines 14 – 17 and page 39, lines 14 - 19

¹⁹Direct testimony of Paul B. Vasington, page 34, line 7, and page 40, lines 13 - 15

1 When two companies are joined, variations of three basic results can occur. (1) Company
2 A and Company B in a true merger will result in Company C, a company this does not
3 mirror either A or B. In a perfect merger Company C would be 50 percent of A and 50
4 percent of B. (2) In a typical acquisition, however, the resulting company will look more
5 like the company doing the acquiring or, (3) in some acquisitions, the resulting company
6 will look more like the company being acquired. Result (3) occurs when the company
7 being acquired has a much stronger brand, market presence or core competencies than the
8 acquiring company.

9
10 The formation of Verizon in the year 2000 that resulted from the merger of Nynex and
11 Bell Atlantic is a good example of (1). There is much to say that the merger of Nynex and
12 Bell Atlantic was a merger of equals and the resulting company brand was different than
13 either of the main parties.

14
15 The acquisition of MCI by LDDS, which led to the formation of MCI WordCom, is a
16 reasonable example of (3). Although usually done by intent, condition (3) can also occur
17 by accident when a smaller company acquires a larger company and simply cannot resist
18 the inexorable market, business and employee environment of the larger company.

19
20 Verizon is neither small nor does its history suggest a willingness to be a secondary
21 participant, in part exemplified by its determined and yet strategic acquisition competition
22 versus Qwest for MCI. This reorganization clearly meets the general conditions for (2).
23 While MCI has a strong brand and significant presence in the Enterprise Market, the
24 resulting company is going to be more like Verizon than MCI. Clearly, MCI is a valued
25 entity, as can be observed by the acquisition price, but Verizon is going to be in charge of
26 the strategic and operating direction of the resulting company.

1 **Q. Is the resulting company (2) more beneficial to Arizona than if the resulting company**
2 **were more like (1) or (3)?**

3 A. I believe it is. A resulting company that looked more like (1) or (3) would naturally place
4 more emphasis on the business direction charted by MCI – a reduction in mass market
5 local exchange presence. Verizon's history and core strengths, however, are in local
6 exchange service. This may ultimately portend favorably for Arizona consumers;
7 however any benefits in this regard are speculative and will likely not be seen, if at all, for
8 sometime, given the Companies stated focus at this time.

9
10 **Q. Does Staff have any reason to believe the company that results from the**
11 **Verizon/MCI merger will be an aggressive competitor?**

12 A. While Staff is generally optimistic given Verizon's performance as an aggressive, national
13 competitor, the history of Verizon's competitive relationship with Qwest suggests that, of
14 all the RBOCs, Verizon is the one most inclined to compete aggressively in Arizona.
15 Examples of Qwest (formerly U S WEST), the dominant ILEC in Arizona, and Verizon
16 (formerly Bell Atlantic and Nynex) having competing interests can be seen as far back as
17 1991 when U S WEST announced²⁰ a video-on-demand trial that included TCI (eventually
18 acquired by AT&T and now part of Comcast), headquartered in Denver, CO. One of the
19 largest TCI video systems was located in Pittsburgh (within the Verizon RBOC region) at
20 the time.

21
22 In 1993, Bell Atlantic announced²¹ it would acquire TCI which served approximately 9.7
23 million video subscribers with several large cable systems located in U S WEST's RBOC
24 region. The acquisition effort by Bell Atlantic followed U S WEST's \$2.5 Billion

²⁰ <http://www.cablecenter.org/history/timeline/decade.cfm?start=1990>

²¹ <http://www.cablecenter.org/history/timeline/decade.cfm?start=1990>

1 investment²² in Time Warner Entertainment in 1993. Time Warner owned and operated
2 large video systems in Verizon's RBOC region. The TCI acquisition effort by Verizon
3 was not successful.

4
5 U S WEST followed by acquiring Continental Cablevision²³, with major video systems on
6 the east coast (within Verizon's RBOC region), in 1996. Eventually, the MediaOne
7 Group, the cable organization divested by U S WEST, and TCI were acquired by AT&T
8 and are now owned by Comcast. Most recently, of course, Qwest participated in an
9 aggressive competition with Verizon for the rights to acquire MCI.

10
11 The sum of the competing interests that can be traced back nearly 15 years suggests to
12 Staff that Verizon and Qwest continue to have overlapping strategic interests that will
13 hopefully exhibit themselves in Arizona, one of the highest growth areas within Qwest's
14 RBOC region and surely near the top of Qwest's local exchange interests. The strategic
15 competition between Qwest and Verizon at times appears to be so strong, so obvious that
16 the actions by Qwest to wrest MCI from Verizon could be gauged as defensive rather than
17 offensive moves.

18
19 **Q. Does Staff have any additional observations related to this merger.**

20 **A.** Yes. Most in the telecommunications industry would agree that the importance of
21 packages and bundles has risen. If so, a geographic portrayal of Verizon's wireline and
22 wireless operations draws attention to an important strategic point (Exhibit 5). While
23 Verizon claims to have a telecom presence in 67 of the top 100 markets nationally,
24 Verizon has a huge gap in wireline geographic coverage that happens to coincide with
25 Qwest's ILEC areas. Verizon has major wireline presence in SBC ILEC areas but very

²² Megamedia Shakeout by Kevin Maney, April 3, 1995

²³ <http://66.179.185.30/history/timeline/decade.cfm?start=1995>

1 little in BellSouth as well as Qwest. With MCI's strong presence in the Enterprise
2 Markets, it's possible to surmise that Verizon would be gaining immediate competitive
3 access to cities, within Qwest's ILEC areas, known for housing many company
4 headquarters and large divisions – Seattle, Denver, Minneapolis, and Omaha. Phoenix's
5 rapid growth, and that of Salt Lake City, would appear to help the competitive portfolio
6 probably desired by Verizon. By closing this gap, Verizon immediately improves its
7 ability to provide packages and bundles in many of the Top 100 markets not currently
8 served with wireline products.

9
10 **Q. Does Staff have any additional observations related to this merger.**

11 A. Its also worth noting that BellSouth acquired a 10 percent stake in Qwest in May, 1999,
12 previous to Qwest's acquisition of U S WEST.

13
14 **Q. Please summarize your conclusions about the impact of Verizon's merger with MCI**
15 **in Arizona.**

- 16 A. (1) Verizon and MCI have very different competitive positions in Arizona.
17 (2) Combining the separate operations of Verizon and MCI would not appear to result in
18 duplicate operations in Arizona that would require force reductions and the
19 realignment of resources.
20 (3) MCI has a significant and measurable share of Arizona's telecommunications market
21 while Verizon's presence in Arizona is very small and limited in scope.
22 (4) The Verizon and MCI merger may allow Verizon's interests and financial resources
23 to combine with MCI's market presence and thereby accelerate the delivery of
24 service alternatives to Arizona end-users, however, there is no such guarantee.
25 (5) MCI has already decided to curtail its local exchange operations in Arizona. The
26 impact of the merger on the mass market remains to be seen.

1 (6) Of importance are the strategic reasons that may be behind Verizon's acquisition of
2 MCI.

3 (7) Verizon and Qwest appear to have a long history of competition and similar strategic
4 interests.

5
6 **Q. Do you recommend approval of the Verizon/MCI merger?**

7 A. Yes. Overall, for the reasons discussed in my testimony and those given by Mr. Abinah in
8 his testimony, Staff believes that the merger is in the public interest. From a competitive
9 standpoint, the merger is not likely to have an adverse impact upon competition in any
10 market in Arizona. The Verizon and MCI merger may also allow Verizon's interests and
11 financial resources to combine with MCI's market presence and thereby accelerate the
12 delivery of service alternatives to Arizona end-users, however, there is no guarantee that
13 this benefit will be seen immediately outside of the enterprise market and the mobile IP
14 markets, given the Companies' stated intentions at this time.

15
16 **Q. Do you have any conditions on which the Commission should base its approval of the**
17 **Verizon/MCI merger?**

18 A. Yes.

19 (1) Verizon/MCI affiliate CLECs should only be allowed to provide local exchange
20 services in Verizon California's ILEC areas under the following conditions:

21 a) Verizon/MCI CLEC affiliate services can be provided to Enterprise Market²⁴
22 customers upon application to and acceptance by the Commission.

23 b) Verizon/MCI CLEC affiliates must file interconnection agreements with the
24 Commission before providing CLEC services to the Enterprise Market
25 customers.

²⁴ The Enterprise Market is defined as business customers with 4 or more local exchange access lines.

1 c) Verizon/MCI CLEC affiliate services cannot be provided to Mass Market²⁵
2 Customers without the filing of data which will allow Staff to assess any
3 adverse impact upon Verizon's ILEC's operations.

4 d) Verizon/MCI affiliate CLECs can only utilize Verizon California CPNI
5 information services to the same degree that non-affiliate CLECs are allowed
6 to utilize Verizon California CPNI information services.

7 (2) Verizon/MCI long distance affiliates only be allowed to provide long distance
8 services in Verizon California's ILEC areas under the following conditions:

9 a) Verizon/MCI long distance affiliates must operate under the same long
10 distance customer selection rules that apply to all other long distance providers.

11 b) Verizon/MCI long distance affiliates can only utilize Verizon California CPNI
12 information services to the same degree that non-affiliate long distance
13 providers are allowed to utilize Verizon California CPNI information services.

14 (3) MCI shall be required to review its numbering resources in the 480, 602 and 623
15 NPAs. To the extent that the Company's numbering resources in these NPAs
16 exceed a six month inventory, MCI shall, within sixty days of a Commission
17 Decision in this matter, return to the Pooling Administrator all surplus thousands-
18 blocks with less than ten percent contamination.

19
20 **Q. Does this conclude your direct testimony?**

21 **A.** Yes, it does.

²⁵ The Mass Market is defined as all residence customers and business customers with 3 or less local exchange access lines.

EXHIBITS

- 1 2003 Total Revenue From Arizona Operations Without Verizon Wireless
- 2 2003 Total Arizona Residence and Business Access Lines Without Verizon
Wireless
- 3 Verizon's National Geographic Coverage

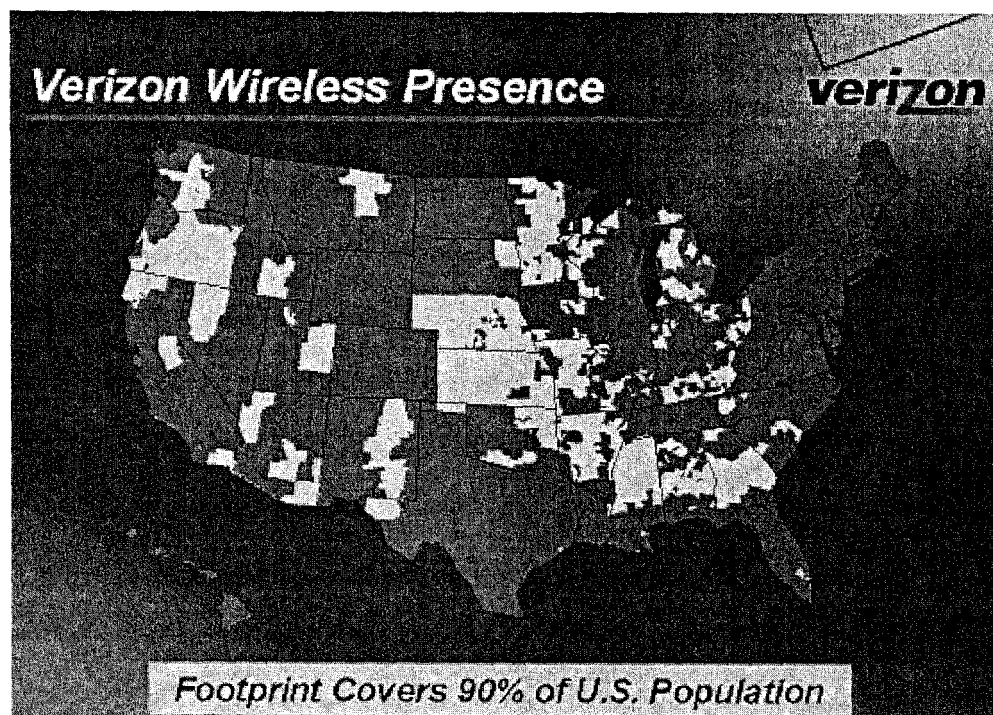
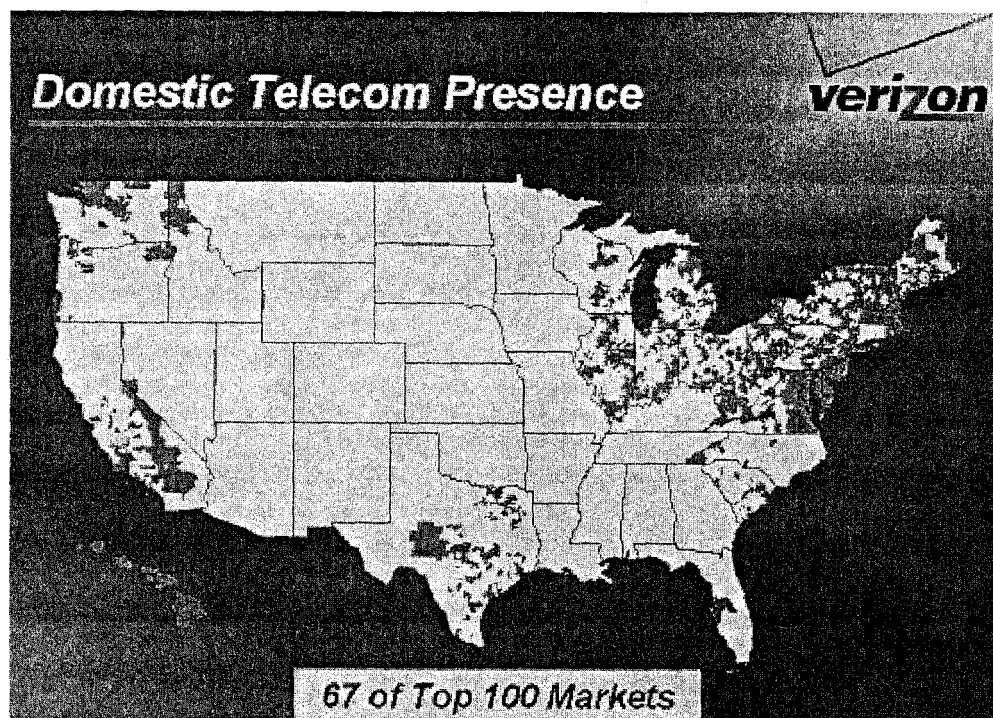
**2003 Total Revenue From Arizona Operations
Without Verizon Wireless**

REDACTED

**2003 Total Arizona Residence and Business Access Lines
Without Verizon Wireless**

REDACTED

Verizon's National Geographic Coverage



BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF	) DOCKET NOS.	T-01846B-05-0279
VERIZON CALIFORNIA INC., VERIZON SELECT	)	T-03258A-05-0279
SERVICES, INC., ONE POINT COMMUNICATIONS-	)	T03475A-05-0279
COLORADO, L.L.C. D/B/A VERIZON AVENUE,	)	T-03289A-05-0279
BELL ATLANTIC COMMUNICATIONS, INC. D/B/A	)	T-03198A-05-0279
VERIZON LONG DISTANCE, NYNEX LONG	)	T-03574A-05-0279
DISTANCE COMPANY D/B/A VERIZON	)	T-02431A-05-0279
ENTERPRISE SOLUTIONS, MCIMETRO ACCESS	)	T-03197A-05-0279
TRANSMISSION SERVICES, L.L.C., MCI	)	T-02533A-05-0279
WORLDCOM NETWORK SERVICES, INC., TTI	)	T-03394A-05-0279
NATIONAL, INC., TELECONNECT LONG	)	T-03291A-05-0279
DISTANCE SERVICES AND SYSTEMS COMPANY)	
DBA TELECOM USA, MCI WORLDCOM)	
COMMUNICATIONS, INC., AND INTERMEDIA)	
COMMUNICATIONS, INC. FOR A PPROVAL OF A)	
<u>REORGANIZATION</u>)	

DIRECT

TESTIMONY

OF

ELIJAH O. ABINAH

ASSISTANT DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 2, 2005

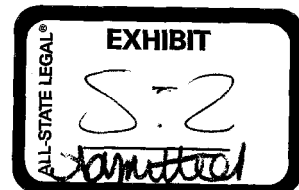


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EXECUTIVE SUMMARY

VERIZON CALIFORNIA INC., VERIZON SELECT SERVICES, INC., ONE POINT COMMUNICATIONS- COLORADO, L.L.C. D/B/A VERIZON AVENUE, BELL ATLANTIC COMMUNICATIONS, INC. D/B/A VERIZON LONG DISTANCE, NYNEX LONG DISTANCE COMPANY D/B/A VERIZON ENTERPRISE SOLUTIONS, MCIMETRO ACCESS TRANSMISSION SERVICES, L.L.C., MCI WORLD COM NETWORK SERVICES, INC., T T INTERNATIONAL, INC., TELECONNECT LONG DISTANCE SERVICES AND SYSTEMS COMPANY D/B/A TELECOM USA, MCI WORLD COM COMMUNICATIONS, INC., AND INTERMEDIACOMMUNICATIONS, INC.

DOCKET NOS. T-01846B-05-0279, T-03258A-05-0279, T-03457A-05-0279, T-03289A-05-0279, T-03198A-05-0279, T-03574-05-0279, T-02431A-05-0279, T-03197A-05-0279, T-02533A-05-0279, T-03394A-05-0279, AND T-03291A-05-0279

My testimony addresses the proposed merger of Verizon Communications, Inc. ("Verizon") and MCI, Inc. ("MCI") and their respective Arizona subsidiaries identified in the joint Application filed with the Arizona Corporation Commission on April 13, 2005. The testimony reviews the Application, participants, proposed merger, application of the Affiliated Interest Rules, Arizona merger effects, merger benefits and public interest considerations, bonding requirements, outstanding issues and/or obligations, and Staff's recommendations. Staff Witness Armando Fimbres addresses the competitive impacts of the proposed merger in more detail.

Unlike states where Verizon is the dominant or major incumbent local exchange carrier, where there is considerable overlap between Verizon's and MCI's operations, there is almost no overlap in Verizon's and MCI's Arizona operations. Consequently, combining the separate operations of Verizon and MCI would not appear to result in any duplicate operations in Arizona that would require force reductions, the realignment of resources, or adversely affect competition in the various telecommunications markets in Arizona.

When considered by customer class, it appears that enterprise customers and governmental customers will benefit by the presence of a stronger competitor in these markets. The IP and mobile markets in Arizona are also likely to benefit at some point in the future given the Companies' stated focus on these areas. The benefits to traditional mass market local exchange subscribers, however, cannot be adequately quantified by Staff at this time.

Overall, Staff believes that the proposed merger is in the public interest. Verizon's financial resources and strength should benefit MCI investors and customers. The merger should result in a financially stronger combined entity with many more resources and capabilities at its disposal. With respect to other alleged benefits claimed by the Companies and discussed in my testimony, I believe it would be helpful if the Companies in their Rebuttal Testimony would provide more detail on merger synergies including the cost reductions referenced in their initial testimony, the \$2 billion dollar investment to be made to MCI's network, and the benefits to mass market customers.

INTRODUCTION

Q. Please state your name and business address.

A. My name is Elijah O. Abinah. My business address is 1200 West Washington Street, Phoenix, Arizona, 85007.

Q. Where are you employed and in what capacity?

A. I am employed by the Utilities Division ("Staff ") of the Arizona Corporation Commission ("ACC" or "Commission") as the Assistant Director.

Q. How long have you been employed with the Utilities Division?

A. I have been employed with the Utilities Division since January 2003.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science degree in Accounting from the University of Central Oklahoma in Edmond, Oklahoma. I also received a Master of Management degree from Southern Nazarene University in Bethany, Oklahoma. Prior to my employment with the ACC, I was employed by the Oklahoma Corporation Commission for approximately eight and a half years in various capacities in the Telecommunications Division.

Q. What are your current responsibilities?

A. As the Assistant Director, I review submissions that are filed with the Commission and make policy recommendations to the Director regarding those filings.

1 **Q. What is the purpose and scope of your testimony?**

2 A. The scope of my testimony is to evaluate the impact of the Agreement and Plan Merger
3 ("Agreement") between Verizon Communications, Inc. ("Verizon") and MCI, Inc.
4 ("MCI") upon Verizon's and MCI's Arizona subsidiaries, operations and customers.
5 This testimony examines the Applicants and their subsidiaries, the proposed transaction,
6 the impact upon Arizona consumers, public interest considerations associated with the
7 proposed merger, bonding requirements and compliance issues. Staff Witness Armando
8 Fimbres will evaluate the merger's impact upon competition in the various Arizona
9 markets.

10
11 **APPLICANTS, THEIR ARIZONA SUBSIDIARIES AND PROPOSED MERGER**

12 **Q. Please Describe the Participants to the Proposed Merger.**

13 A. The proposed merger is between Verizon and MCI.

14
15 Verizon Communications, Inc. is a Delaware corporation. Its principal office is located
16 in New York, New York. Verizon's telephone operating company subsidiaries provide
17 telecommunications service in 29 states, Puerto Rico, and the District of Columbia,
18 serving approximately 53 million access lines, with approximately 9,300 access lines
19 being served in Arizona. Verizon's domestic telecommunications services include the
20 provision of exchange telecommunications services, including switched local residential
21 and business services, local private line, voice and data services, and Centrex services. It
22 also provides intraLATA and interLATA toll and interexchange services, as well as
23 exchange access services, including switched and special access services. Verizon's
24 other domestic subsidiaries provide voice and data wireless services, information services
25 including directory publishing, and electronic commerce.

1 Verizon had annual operating revenues of approximately \$71 billion in 2004. Verizon
2 has approximately 210,000 employees nationwide, including approximately 1,450
3 employees in Arizona (wireless and wireline).

4
5 Verizon is the corporate parent of the following subsidiaries that provide
6 telecommunications services in Arizona: Verizon California Inc.; Verizon Select Services
7 Inc.; One Point Communications-Colorado, LLC d/b/a Verizon Avenue ("Verizon
8 Avenue"); Bell Atlantic Communications, Inc. d/b/a Verizon Long Distance ("Verizon
9 Long Distance"); and NYNEX Long Distance Company d/b/a Verizon Enterprise
10 Solutions ("Verizon Enterprise Solutions") (collectively the "Verizon subsidiaries").
11 Verizon California Inc. is the Incumbent Local Exchange Carrier ("ILEC") in parts of
12 western Arizona where it serves the majority of Verizon's access lines in Arizona, or
13 approximately 8,000 lines. One Point is a very small, niche provider in the multi-
14 dwelling unit market in Arizona.

15
16 MCI is a Delaware corporation with its principal place of business located in Ashburn,
17 Virginia. MCI's subsidiaries provide services to business and government customers
18 including 75 federal government agencies. Among the enterprise services that MCI
19 provides through its subsidiaries are data, Internet, voice, IP network technology, Virtual
20 Private Networking, SONET private line, frame relay, ATM, and dedicated, dial and
21 value-added Internet services. MCI subsidiaries also provide consumer services,
22 including interstate long distance services, intrastate toll service, competitive local
23 exchange services and other telecommunications services in Arizona.
24

1 In 2004, MCI had annual operating revenues of approximately \$21 billion. MCI has over
2 42,500 employees nationally and internationally, including approximately 1,000 Arizona
3 employees.

4
5 MCI is the parent corporation of MCImetro Access Transmission Services LLC d/b/a
6 MCImetro ("MCImetro"); MCI WorldCom Network Services, Inc.; TTI National, Inc.;
7 Teleconnect Long Distance Services and Systems Co. d/b/a Telcom*USA
8 ("Telecom*USA"); MCI WorldCom Communications, Inc.; and Intermedia
9 Communications, Inc. (collectively the "MCI subsidiaries"), all of which provide
10 telecommunications services on a statewide basis in Arizona. Intermedia
11 Communications, Inc. has requested cancellation of its Certificate of Convenience and
12 Necessity ("CC&N") as part of MCI's CLEC consolidation. The request to cancel the
13 CC&Ns was filed before the proposed merger in Docket Nos. T-03291A-05-0038; T-
14 03541A-05-0038. MCI's affiliates are among the largest interexchange carriers and
15 competitive local exchange carriers in Arizona.

16
17 **Q. Please provide a comparison of both Companies Arizona operations.**

18 A. Verizon stated in response to Staff's data request that it received revenue from providing
19 local exchange and long distance services in Arizona during 2004. MCI stated that it had
20 annual revenues from providing local exchange and in-state long distance services in
21 Arizona during the calendar year 2004. MCI received more revenue from its Arizona
22 customers in 2004 than Verizon received from its Arizona customers in 2004. **Exhibit 1**
23 compares the total 2004 annual revenue received by each Verizon subsidiary and each
24 MCI subsidiary in Arizona. Verizon derives most of its revenues by providing local
25 exchange services while MCI derives most of its revenues from the provisions of
26 interexchange services. See Exhibit 2.

1 The attached **Exhibit 2** is prepared based on the responses to Staff's data request. The
2 number of long distance customers in Arizona is shown for each Verizon subsidiary and
3 each MCI subsidiary. The number of long distance customers being served in Arizona by
4 MCI is greater than the number of long distance customers being served in Arizona by
5 Verizon.

6
7 The response to Staff's data request shows that more residential and business customers
8 in Arizona receive local exchange services from MCI than from Verizon. **Exhibit 3**
9 shows the number of Verizon residential and business customers and MCI residential and
10 business customers in Arizona receiving local exchange service.

11
12 **Exhibit 4** shows the number of local exchange access lines for both residential and
13 business customers for Verizon in Arizona. It also shows the number of access lines used
14 to provide local exchange service to MCI residential customers and business customers in
15 Arizona. The response to Staff's data request shows that MCI has more access lines
16 serving its residential customers and business customers in Arizona than the number of
17 access lines serving Verizon residential customer and business customers in Arizona.
18 However, MCI's access lines are mainly lines that belong to an ILEC (Qwest for the most
19 part) that MCI is leasing as an unbundled network element ("UNE"). Whereas, Verizon
20 actually owns the bulk of its access lines.

1 **Q. Please Briefly Describe The Proposed Merger Between Verizon and MCI?**

2 A. MCI will merge into ELI Acquisition, LLC. a Delaware limited liability company, which
3 is wholly owned by Verizon, and created solely to facilitate the merger transaction. ELI
4 Acquisition, LLC will be the surviving company in the merger. Verizon will be the
5 parent company after the merger. The merger will result in combining the businesses of
6 Verizon and MCI. Verizon will rename the surviving company MCI, LLC. MCI, LLC
7 will be a subsidiary of Verizon. MCI's regulated subsidiaries in Arizona will remain as
8 subsidiaries of MCI, LLC.

9
10 Under the First Amendment to the Agreement, MCI shareholders receive the right to
11 receive a total of \$26.00 (rather than the \$23.10 contemplated by the March 29
12 Amendment) in cash and Verizon stock for each share of MCI stock they tender. The
13 proposed merger will be financed by a combination of equity and cash payment. Under
14 the proposed acquisition of MCI, Verizon will pay a total of \$26.00 in the form of cash
15 and Verizon stock for each share of MCI stock shareholders tender. MCI shareholders
16 will receive 0.5743 shares of Verizon common stock for every share of MCI stock. In
17 addition, MCI shareholders will receive a special dividend in the amount of \$5.60 per
18 share, less any dividend paid by MCI between February 14, 2005, and the consummation
19 of the transaction.

20
21 **AFFILIATED INTEREST RULES**

22 **Q. Did the Applicants file a Notice of Intent Under Arizona Administrative Code**
23 **("A.A.C.") Rules R14-2-803?**

24 A. Yes, the Applicants filed a Notice on April 13, 2005. They subsequently filed two
25 amendments to their Notice.

1 The first amendment was filed on May 6, 2005. This amendment involved modifying
2 certain financial and other terms of Verizon's proposed acquisition of MCI. The second
3 amendment to the Notice of Intent was filed on July 1, 2005. The second amendment
4 involved previous waivers granted to predecessors of the Companies of the Affiliated
5 Interest Rules, A.A.C. R14-2-801 *et seq.*, and the Companies' position that they should
6 not have to obtain Commission approval of the mergers under those waiver decisions.

7
8 **Q. Does Staff agree with the Applicants' position in the Second Amendment to their**
9 **Notice of Intent regarding the need for review under the Affiliated Interests Rules?**
10 **If not, please explain Staff's reason(s) why the Applicants should be required to seek**
11 **approval of their proposed merger under the Affiliated Interests Rules?**

12 **A.** No, Staff does not agree with the Applicants' position that they have no obligation to
13 obtain prior Commission approval of the transaction under the Affiliated Interest Rules
14 because of prior waivers granted to certain of their predecessors.

15
16 The Companies rely in part upon a limited waiver of R14-2-803 granted to MCI's
17 subsidiaries (MCImetro Access Transmission Services, LLC; MCI WorldCom
18 communications, Inc.; MCI WorldCom Network Services, Inc.; and Teleconnect Long
19 Distance Services and Systems Company) by the Commission in Decision No. 62702
20 issued on June 30, 2000. That waiver required the MCI subsidiaries to file a Notice of
21 Intent if a reorganization is likely to result in: (i) significant increased capital costs of its
22 Arizona operations; (ii) significant additional costs allocated or charged directly to the
23 Arizona jurisdiction; or (iii) a significant reduction in the net income of its Arizona
24 operations.
25

1 They also rely upon Decision No. 58232, wherein the Commission granted Contel of the
2 West, Inc., d/b/a GTE West ("GTE West") and Contel of California, Inc. ("Contel CA") a
3 limited waiver of A.A.C. R14-2-803 of the Affiliated Interest Rules on March 24, 1993.
4 Like the MCI waiver, the waiver granted to GTE West required the Company to file a
5 Notice of Intent if a reorganization is likely to result in (i) significant increased capital
6 costs to the Arizona jurisdiction; (ii) significant additional costs allocated or charged
7 directly to the Arizona jurisdiction; or (iii) a significant reduction in the net income of its
8 Arizona operations.

9
10 The Companies also argue that several of their affiliates are not Class A utilities and for
11 this reason do not have to obtain Commission approval. While this is a legal issue, I
12 would offer the following brief comments. First, these limited waivers were granted a
13 long time ago. There was no transfer of the waivers, at least in the case of Verizon.
14 Second, the existence of the limited waivers by itself does not limit or restrict the
15 Commission's ability or authority to review certain transactions when and if it believes
16 that a review is warranted. Third, the Commission must ensure that a transaction of this
17 nature is in the public interest. Where the Commission believes that there is a need for
18 review, the Commission is obligated to undertake a review to ensure that the public
19 interest is being served by the transaction. Verizon Witness Paul B. Vasington at p. 3 of
20 his Direct Testimony acknowledges that "[t]he ACC also may evaluate the transaction
21 pursuant to its constitutional duty to determine whether the transaction is in the public
22 interest, the 'scope and breadth' of which is influenced by the 'individual circumstances
23 of each case.'"

24
25 Staff does not find the Companies arguments' regarding the fact that certain of their
26 affiliates are not Class A utilities to be persuasive. Verizon has a Class A subsidiary,

1 Verizon California Inc., and MCI has three Class A subsidiaries, MCImetro Access
2 Transmission Services LLC d/b/a MCImetro; MCI WorldCom Communications, Inc.;
3 and MCI WorldCom Network Services, Inc. and thus all of these entities would be
4 encompassed by the rule.

5
6 **Q. Did the Applicants provide information that is required in the Notice of Intent and**
7 **did Staff review the information to ensure it was complete and met the requirements**
8 **of A.A.C. Rule R14-2-803?**

9 A. Yes. In their Notice of Intent filed pursuant to A.A.C. R14-2-803, the Applicants
10 provided some but not all of the information required by that section of the Affiliated
11 Interest Rules. Staff reviewed the information provided by the Applicants and has
12 concluded that there are two deficiencies. First, the names and business addresses of
13 officers and directors of the proposed Holding Company have not yet been determined.
14 The names and business addresses of the Verizon and MCI officers and directors should
15 be provided to the Commission when this information becomes available. Second, copies
16 of all relevant documents and filings with the United States Securities and Exchange
17 Commission and other federal or state agencies need to be filed with the Commission as
18 required in A.A.C. R14-2-803.

19
20 **ARIZONA MERGER EFFECTS**

21 **Q. Has Staff evaluated the impact of the proposed merger on the Verizon subsidiaries**
22 **and MCI subsidiaries in Arizona?**

23 A. Yes. If the merger is approved, only a change in the ownership and control of the MCI
24 subsidiaries will take place. Verizon will become the corporate parent of MCI. Each
25 Verizon subsidiary and MCI subsidiary will continue to operate as the same stand alone
26 entity as they have in the past, according to the Companies.

1 **Q. How many managerial, technical, and customer service employees do Verizon and**
2 **MCI have in Arizona?**

3 A. Based upon the information provided to Staff, both Companies have management and
4 non-management employees in Arizona. The total number of people employed by
5 Verizon in Arizona is more than the total number of people employed by MCI in
6 Arizona. **Exhibit 5** shows the number of Verizon employees and MCI employees in
7 management and non-management positions in Arizona.

8
9 **Q. If the proposed merger is approved, how many employees will be kept in Arizona?**

10 A. According to Verizon's responses to Staff's data requests, Verizon and MCI have not
11 engaged in any post-transaction planning and have not identified any employees or
12 positions that will be eliminated as a result of the proposed merger transaction. Verizon
13 and MCI have indicated that they have not identified whether the number of Verizon and
14 MCI employees will increase or decrease in Arizona.

15
16 Staff believes that Verizon and MCI should inform the Commission of the date and
17 number of Arizona employees and positions that will be eliminated as a result of the
18 merger related activities.

19
20 **Q. If the merger between Verizon and MCI is approved by the Commission, what is the**
21 **impact on the assets in Arizona?**

22 A. Verizon Communications Inc. stated in response to a Staff data request that it had total
23 assets of \$165.958 billion and MCI, Inc. had total assets of \$17.060 billion at year end
24 2004. Verizon indicated that less than 13 percent of its total assets are under the
25 Commission's jurisdiction in Arizona. Staff has determined that less than one percent of
26 MCI's subsidiaries' assets listed in **Exhibit 6** are in Arizona. **Exhibit 6** shows the total

1 company value of Verizon's subsidiaries that operate in Arizona at year end 2004. The
2 total company value includes total assets operating in all states. Verizon states that
3 Arizona amounts can not be identified.

4
5 Finally, according to the Companies, there will be no direct change in the assets of the
6 Verizon subsidiaries or the MCI subsidiaries as a result of the merger.

7
8 **Q. If the proposed merger is approved by the Commission, what facilities and/or**
9 **equipment will be added in Arizona? What facilities will be closed or equipment**
10 **sold in Arizona?**

11 A. Verizon and MCI have not engaged in any post-transaction planning and, accordingly,
12 have not identified any facilities that may or may not be closed or equipment that may or
13 may not be sold as a result of the merger. However, Verizon Witness Paul Vasington
14 stated at page 6 of his Direct Testimony that Verizon had committed to investing \$2
15 billion in enhancing MCI's network and systems, including MCI's Internet Protocol
16 ("IP") based backbone, which the Companies claim will benefit customers that rely on
17 the service that such networks and systems enable. However, it is not known what
18 portion of this investment will be in Arizona.

19
20 **Q. Does Staff have more specific information on the \$2 billion investment to be made**
21 **by Verizon, and what portion of the investment will go towards improvement in**
22 **MCI's network and system facilities.**

23 A. No, based on the information provided by the Company in response to a request by Staff,
24 the \$2 billion is intended to cover changes to MCI's IT systems and improvements to
25 MCI's networks. Beyond that, Verizon stated that it has not engaged in post-merger
26 planning and cannot say with specificity where the funds will be spent. Staff has no

1 additional information on the \$2 billion investment, including the time-frame of such
2 investment, and in what states the investments are to be focused. Staff believes that such
3 information would be of assistance to the Commission in evaluating the benefits
4 associated with this investment, and that it would be helpful if the Companies witnesses
5 provided whatever further information they may have on the investments impact upon the
6 Arizona market in their rebuttal testimony.

7
8 Further, at least 90 days prior to the changes to MCI's network and system facilities, the
9 Company should be required to provide the Commission with the dollar amount of the
10 investment to be made in Arizona.

11
12 **Q. In addition to further information on the \$2 billion investment to be made by**
13 **Verizon, is there other information that the Companies should provide to the**
14 **Commission on the merger's impact on existing and future infrastructure?**

15 A. Staff believes that Verizon and MCI should inform the Commission of the date and
16 facility or facilities that will be closed as a result of merger related activities.

17
18 **Q. If the proposed merger is approved by the Commission, will the transaction be**
19 **transparent to ratepayers.**

20 A. According to the Company's Testimony, it will be transparent to ratepayers. Verizon
21 Witness Paul B. Vasington states at p. 8 of his Direct Testimony that "...there is no
22 change contemplated with respect to the terms and conditions of service; service quality;
23 customer service; the quality of facilities; the rate of investment; the companies'
24 corporate affiliate transaction guidelines and policies; and their respective commitments
25 to their customers and to their communities." In addition, in response to an inquiry by
26 Staff, there will be no impact on the rates currently charged customers.

At page 4 of his Direct Testimony, Mr. Vasington also states that “[n]or does the Agreement call for any change in the rates, terms or conditions for the provision of any communications services provided in Arizona.” However, he goes on to state at footnote 4 of his Direct Testimony that “[n]or should the ACC be concerned that an increase in rates will result from completion of the transaction.” This statement makes Verizon’s intentions with respect to customer rate increases less clear. Staff believes that the Company should provide additional clarification of any rate increases that are contemplated at this time as a result of the transaction in its rebuttal testimony.

Q. How will the merger affect other carriers operations in Arizona?

A. Mr. Fimbres addresses the impact of the merger on competitive conditions in the state. With respect to existing wholesale relationships, the Applicants have indicated that there would be no change and that all affiliates of both Verizon and MCI would continue to honor any existing contracts with other wholesale providers.

Q. Will the merger adversely impact competition in the Arizona telecommunications markets?

A. Mr. Fimbres concludes in his testimony that the proposed merger between Verizon and MCI should not adversely impact competition in Arizona. Given that the competitive positions of Verizon and MCI do not overlap in Arizona, the likelihood that the merger of Verizon and MCI will result in reduced competition in Arizona telecommunications markets is very low. In addition, both Verizon’s and MCI’s witnesses have stated that MCI’s affiliates will continue to operate as they did before the merger.

1 **Q. Will the merger have an adverse impact on cost of capital, cost of services or upon**
2 **the ability of the combined entity to provide safe, reliable and adequate service in**
3 **the future?**

4 A. Verizon is one of the largest Regional Bell Operating Companies in the United States. In
5 Staff's opinion they have a very strong financial position and are in an excellent position
6 to attract capital. In response to Staff's data request, Verizon stated that the Verizon/MCI
7 merger transaction will not prevent the companies from attracting capital at fair and
8 reasonable terms. An analysis by Verizon shows that the overall impact on the combined
9 company's ability to raise capital should be negligible. MCI indicates that there should
10 not be a significant impact on the availability of capital for MCI's subsidiaries in
11 Arizona. Accordingly to the Notice of Intent, the proposed merger transaction is
12 expected to improve MCI's access to capital. Also, according to the Applicants, the
13 proposed merger transaction should not adversely affect investment in the Arizona
14 subsidiaries and should result in an entity with increased financial strength. They further
15 indicate that the Arizona-regulated subsidiaries of Verizon and MCI will be able to attract
16 capital on terms no less favorable than before the proposed transaction.

17
18 Staff concludes, based upon the above discussion, that the merger will not impair the
19 financial status of any Verizon subsidiaries and/or MCI subsidiaries in Arizona relating to
20 their capital structure and the cost of services; prevent any Verizon subsidiaries and/or
21 MCI subsidiaries in Arizona from attracting capital at fair and reasonable terms.

22
23 However, when considering the ability of the Verizon subsidiaries and/or MCI
24 subsidiaries to provide safe, reasonable and adequate service in Arizona, Staff believes
25 that one must evaluate Verizon and/or its various subsidiaries' vocal opposition to state
26 consumer protection measures, such as the Commission's proposed slamming and

1 cramming rules and the Commission's proposed CPNI rules. In addition Verizon and its
2 affiliates have been a strong advocate of preemption at the federal level in *inter alia*
3 recent dockets involving IP-Enabled Services and Truth-In-Billing. Further, Staff is
4 disconcerted that the CEO of Verizon has made state preemption its No. 1, No. 2 and
5 No.3 priority, and the impact this may have Arizona's ability to protect consumers. This
6 is discussed further in the public interest section below.

8 **MERGER BENEFITS AND PUBLIC INTERESTS**

9 **Q. What are some of the benefits associated with this merger?**

10 A. While the MCI appears to have overcome some of its financial issues, it is still not
11 considered by some to be a financially sound company. Verizon's financial resources
12 and strength should benefit MCI investors and enterprise customers.

13
14 The merger should result in a financially stronger combined entity with many more
15 resources and capabilities at its disposal. Verizon and MCI have indicated that the
16 merged company will create a far stronger company with the ability to grow and thrive in
17 the intensely competitive telecommunications industry. As a result, the merged company
18 provides a high degree of stability and certainty for employees and their dependents than
19 either company could on a stand alone basis.

20
21 Second, the businesses of both providers in Arizona do appear to complement each other.

22 MCI Witness Beach stated:

23
24 In the enterprise market, MCI's and Verizon's networks, services, and areas of
25 expertise are highly complementary and not overlapping. MCI is strong in the
26 enterprise sector; Verizon is not. MCI operates a large Internet backbone
27 network; Verizon does not. MCI has no wireless assets and offers no wireless
28 services to enterprise customers; Verizon operates a large and successful wireless
29 business.

1 As Mr. Fimbres noted in his testimony, with the complementary nature of the networks,
2 services and areas of expertise of each entity, combining the separate operations of
3 Verizon and MCI would not appear to result in any duplicate operations in Arizona that
4 would require force reductions and the realignment of resources.

5
6 Third, as discussed in the testimony filed by Staff Witness Fimbres, there is no evidence
7 in the record that the merger will materially impact the concentration of competition in
8 either the local exchange market or the long distance market in Arizona.
9

10
11 Fourth, MCI Witness Beach testified that the stronger company that emerges will benefit
12 enterprise and government customers. The Companies also believe that their particular
13 combination will benefit customers by enabling the merged entity to operate at lower
14 costs, to develop high-quality innovative services and to deploy these services rapidly.
15

16 Mr. Beach testified that the new company will be able to develop and deploy brand new
17 services more rapidly than either company could on its own. MCI Witness Beach also
18 testified that it will be able to provide an integrated suite of services that can better
19 service government customers. While Staff tends to agree that the merger will probably
20 make the combined entity a stronger competitor in the enterprise market than MCI, it
21 would be helpful if the Company in its rebuttal testimony addressed how and to what
22 degree the synergies of this merger will result in lower costs to consumers. In other
23 words, the Company should produce some hard data to back up its statement that the
24 merger will enable the merged entity to operate at "lower costs".
25

1 Based upon its review of the Companies' Application and their responses to Staff data
2 requests, Staff has been unable to identify any benefits to residential customers, as a
3 result of the proposed merger. MCI, is one of the largest CLECs in Arizona, however,
4 Mr. Beach acknowledges at p. 30 of his Direct Testimony that MCI's residential business
5 is already in decline due to a variety of factors. Its most familiar product is "The
6 Neighborhood" offering of local and integrated local/long-distance services. MCI
7 attributes the decline in its consumer business to the following factors:

- 8
- 9 a) restrictions on marketing resulting from 'Do Not Call' legislation;
- 10
- 11 b) erosion of long distance minutes resulting from competition from
- 12 wireless providers, who offer long distance calling 'for free';
- 13
- 14 c) entry by the Bell Operating Companies into the long distance
- 15 business;
- 16
- 17 d) customer preference for all-distance service and the convenience of
- 18 one bill from one company for all their telecommunications needs;
- 19
- 20 e) provision of voice services, whether circuit switched or IP based, by
- 21 cable companies;
- 22
- 23 f) availability of broadband-based telecommunications services,
- 24 including VoIP; and
- 25
- 26 g) regulatory changes that eliminated the availability of UNE-P at total
- 27 element long run incremental cost ("TELRIC") rates and adversely
- 28 affected the economies of MCI's provision of integrated services.
- 29

30 Today, according to MCI Witness Beach, MCI no longer competes on a significant scale
31 for new residential customers. MCI no longer spends any money on any broadcast
32 advertisements. Nationally, its spending on direct mail and print advertising has also
33 been substantially reduced. Likewise, its telemarketing efforts have been significantly
34 reduced. Further, MCI Witness Beach also states at page 17 of his Direct Testimony that
35 MCI is likely to have to increase its charges for these services in the future, with the

1 potential for further declines in its business. At page 18 of his Direct Testimony, Mr.
2 Beach characterizes MCI's consumer business to be on a continuing and irreversible
3 decline nationally and in Arizona.

4
5 Neither Verizon nor MCI have given any indication of the extent to which the combined
6 entity intends to provide service in the local exchange mass markets (residential and
7 small business) in Arizona, other than the area where Verizon operates as an ILEC; what
8 the timing of such service provision would be; or how such service would be provisioned.
9 Further, the information provided by the entities on the impact on residential consumers
10 is sketchy at best. The Companies provision of additional information on the
11 transaction's impact on residential consumers would be useful to the Commission in
12 determining the overall benefits of the proposed transaction.

13
14 **Q. Are there other issues that should be considered by the Commission that may**
15 **impact on any public interest finding?**

16 **A.** Yes, a concern was raised by Commissioner Spitzer in a June 29, 2005 letter filed in this
17 Docket regarding statements made by Verizon CEO Ivan Seidenberg regarding consumer
18 protection measures taken by state commissions, which Staff believes needs to be
19 considered. In an article that appeared in the April 16, 2005 San Francisco Chronicle,
20 Mr. Seidenberg openly complained about the role of states in protecting consumers in
21 their jurisdictions and urged Congress to rewrite the Telecommunications Act of 1996 to
22 decrease the role of the states. Mr. Seidenberg was also quoted as saying, "The first thing
23 we'd do is pre-empt the states. That's priority No.1, No.2 and No. 3."

24
25 Staff recognizes that any Company has a right to express its views regarding any
26 consumer protection measure that a state may decide to adopt. However, Verizon

1 appears to expect that it will be subject to no consumer protection measures, no matter
2 how necessary or appropriate. While Verizon responded to Commissioner Spitzer's
3 letter, the response did not resolve all of Staff's concerns. The extent of the Company's
4 vocal opposition to state regulation, including measures designed by the Commission to
5 protect consumers, coupled with the fact that preemption appears to be the top priority of
6 Verizon, is of concern to the Staff and should be considered by the Commission in
7 determining whether the merger is in the public interest.

8
9 At a minimum, the Company should be required to file in this Docket in the future any
10 comments or petitions advocating preemption of state regulation that it files with the FCC
11 or Congress. The Commission can then at least closely monitor the Company's activities
12 in this regard and respond as it deems necessary.

13
14 **Q. Did you review the comments filed before the FCC on the proposed merger?**

15 A. Yes, I reviewed the initial comments filed with the FCC on the proposed merger. These
16 comments are primarily focused upon the potential anticompetitive impact of the merger
17 within Verizon's in-region footprint.

18
19 **Q. Overall, what is Staff's conclusion regarding whether the merger is in the public**
20 **interest?**

21 A. Overall, Staff believes that there are benefits associated with the merger for MCI
22 investors and enterprise customers as set out above, but at this time Staff cannot find any
23 benefit to residential customers. Based on the benefit to MCI's investors and enterprise
24 customers, Staff believes that the merger is in the public interest. However, Staff would
25 like the Company to provide clarity in the areas identified by the Staff, including a more
26 rigorous analysis of the synergies expected from the merger which lead to the

1 Companies' claims of "reduced costs to consumers", whether and how much of the \$2
2 billion investment to be made by Verizon will be made in Arizona, the overall benefits to
3 mass market local exchange customers, and the impact upon rates in Arizona.

4
5 **Q. Has Staff made any inquiries as to what other jurisdictions have done with respect**
6 **to the merger?**

7 A. Yes. Staff made inquiries with some of the Qwest regional Oversight Committee
8 ("ROC") states. The Minnesota Public Utilities Commission has approved the merger
9 with conditions. The Idaho and Colorado Commissions determined that they did not
10 have jurisdiction over the merger. The Washington Utilities and Transportation
11 Commission will be holding hearings on the Application beginning November 3, 2005.
12 The Utah Commission has yet to set a schedule.

13
14 Following is a summary¹ for States outside of the Qwest region:

15
16 Alaska: Initial comments were due July 15. Further proceedings to be determined.
17
18 California: Public comment hearings Aug. 15-18. Rest of schedule will depend on
19 whether evidentiary hearings are required. Parties disagree on need;
20 motions in favor are due Aug. 26 with opposition motions Aug. 30. If
21 evidentiary hearings are required, they would be Sept. 21-23, with final
22 briefs Oct. 7, final replies Oct. 14 and a Dec. 1 decision date. Without
23 evidentiary hearings, final briefs are Sept. 26, final replies Oct. 3 and a
24 Nov. 18 decision date
25
26 Maine: Original March approval request withdrawn and refiled in May. PUC on
27 July 8 determined that merger requires investigation. Procedural schedule
28 for review not set, but PUC rules require decision by early Nov.
29
30 New Jersey: First briefing cycle concludes Aug. 19. Evidentiary hearings Sept. 20-22.
31 Final briefs Oct. 14 and final replies Oct. 28. Decision due by Dec. 2.
32

¹ State Telephone Regulation, VOL. 23, No. 14, July 14, 2005

1 Ohio: Final company briefs July 18. Final intervenor briefs Aug. 25. Final
2 replies Sept. 9. Decision due in fall.
3 Pennsylvania: First briefing cycle concludes Aug. 28. Evidentiary hearings Aug. 13-15.
4 Final briefs Oct. 4 and final replies Oct. 18. Public comment hearing
5 planned, date not yet set.
6
7 Vermont: Public comment hearing July 19. Initial briefing cycle concludes July 27.
8 Discovery concludes Aug. 17. Final prehearing motions Sept. 8.
9 Evidentiary hearings Oct. 6-7. Final briefs Oct. 21. Final replies Oct. 28.
10 Decision due by Nov. 28.
11

12 **PERFORMANCE BOND REQUIREMENTS**

13 **Q. Are all of Verizon subsidiaries and MCI subsidiaries involved in the proposed**
14 **merger certificated to provide telecommunications services in Arizona? What**
15 **telecommunications services are provided by each Verizon subsidiary and each MCI**
16 **subsidiary in Arizona?**

17 **A.** Yes. Verizon California Inc. currently reported that it provides customer-owned pay
18 telephone services and incumbent local exchange services in Arizona. Verizon Select
19 Services Inc. stated that it currently provides resold long distance telecommunications
20 services in Arizona. Verizon Avenue indicated that it provides resold local exchange
21 service and long distance service to customers in Arizona. Verizon Long Distance and
22 Verizon Enterprise Solutions currently reported that they provide resold long distance
23 services to their customers in Arizona.
24

25 MCImetro replied that it provides facilities-based local exchange and long distance
26 services. According to MCI WorldCom Network Services, Inc., it provides facilities-
27 based and resold long distance telecommunications services in Arizona. TTI National,
28 Inc. and Telecom*USA currently provide resold long distance services to customers in
29 Arizona. MCI WorldCom Communications, Inc. is a provider of alternative operator
30 services and long distance services in Arizona. Intermedia Communications, Inc. has

1 docketed an Application, Docket Nos. T-03574A-05-0038 and T-03291A-05-0038, to
2 cancel its CC&Ns in Arizona.

3
4 **Q. Are the Verizon subsidiaries and MCI subsidiaries required to have performance**
5 **bonds in Arizona? Please identify the condition, purpose, definition and application**
6 **of the performance bond to telecommunications services providers in Arizona.**

7 A. Yes. If a telecommunications carrier is authorized to provide resold and facilities-based
8 long distance and resold and facilities-based local exchange telecommunications services
9 in Arizona and the carrier's tariff indicates that it collects from its customers an advance,
10 deposit, and/or prepayment, the carrier is required to post a performance bond of
11 \$235,000. The amount of the performance bond for multiple services is an aggregate of
12 the minimum bond amount for each type of telecommunications services granted by the
13 Commission. The amount of bond coverage needed for each service is as follows: resold
14 long distance \$10,000 for advances, deposits and/or prepayments collected; resold local
15 exchange \$25,000; facilities-based long distance \$100,000; and facilities-based local
16 exchange \$100,000. The performance bond coverage needs to increase in increments
17 equal to 50 percent of the total minimum bond amount when the total amount of the
18 advances, deposits, and prepayments is within 10 percent of the total minimum amount of
19 the performance bond. Advances exclude the monthly payments for local exchange
20 services that are paid a month in advance.

21
22 It is appropriate that the Commission review the existing performance bonds of the
23 subsidiaries involved in providing telecommunications services to ensure that the
24 bonding amounts comply with recent decisions of the Commission. All providers of
25 telecommunications services in Arizona need to be treated in a fair and equitable manner
26 with respect to bonding requirements so that a level playing level is created for all

1 telecommunications service providers in this regard. In addition, this will ensure that
2 customers of all telecommunications service providers in Arizona will receive fair and
3 equitable protection of any advances, deposits, and/or prepayments held by their
4 telecommunications service provider.

5
6 **Q. Based on current Commission practice and telecommunications services authorized**
7 **by the Commission, has Staff determined which Verizon subsidiaries and MCI**
8 **subsidiaries need to procure a performance bond?**

9 A. Based on a review of prior decisions and the tariffs filed with the Commission, Staff
10 analysis indicates that there are three Verizon subsidiaries and three MCI subsidiaries that
11 need to procure a performance bond. The evidence to support the need for each
12 subsidiary to obtain a performance bond is listed as follows:

13
14 Under Decision No. 63546, issued on April 4, 2004, Verizon Select Services Inc. was not
15 required to procure a performance bond. However, it was authorized to provide
16 facilities-based intrastate (local exchange and long distance) and resold intrastate (local
17 exchange and long distance) service in Arizona. To the best of Staff's knowledge, it
18 currently provides resold long distance and its tariff indicates that it has prepaid calling
19 cards for their customers in Arizona, Verizon Select Services Inc. should obtain a
20 performance bond of \$235,000. The bond amount should be increased in increments of
21 \$117,500. The increase should occur when the total amount of any advances, deposits
22 and prepayments is within \$23,500 of the bond amount. The alternative operator services
23 currently being provided by Verizon Select Services Inc. does not require a performance
24 bond.
25

1 In Decision No. 62086, OnePoint Communications - Colorado² was authorized to provide
2 competitive facilities-based and resale intrastate interLATA and intraLATA
3 telecommunications services and local exchange services. It currently provides resold
4 local exchange and long distance telecommunications services in Arizona. In addition,
5 its filed tariff indicates that it has prepaid calling cards for its customers in Arizona.
6 Consequently, OnePoint Communications - Colorado d/b/a Verizon Avenue should
7 obtain a performance bond in the amount of \$235,000 to ensure that a minimum amount
8 of funds are available to protect its consumers in Arizona. The bond amount should be
9 increased in increments of \$117,500. The increase should occur when the total amount of
10 any advances, deposits and prepayments is within \$23,500 of the bond amount.

11
12 One Point was required to maintain an escrow account of \$100,000 under Decision No.
13 62086. Also, Staff recommends that the \$100,000 held in escrow be removed as a
14 requirement in Decision No. 62086. Removal of the escrow account will help establish
15 standards to ensure that application of the performance bond is done in a uniform and
16 consistent manner.

17
18 In Decision No. 61845, Bell Atlantic Communications³ was granted a CC&N to provide
19 interLATA/intraLATA resold telecommunications services, with the exception of local
20 exchange services. Bell Atlantic Communications, now known as Verizon Long
21 Distance, stated that it provides resold long distance services and offers a prepaid long
22 distance plan to its customers in Arizona. As a result of providing resold long distance
23 and having a prepaid payment plan, it should obtain a performance bond of \$10,000. The
24 bond amount should be increased in increments of \$5,000. The increase should occur

² One Point is doing business as Verizon Avenue. See Decision No. 64147.

³ Bell Atlantic Communications subsequently changed its name to Verizon Long Distance. See Decision No. 63351.

1 when the total amount of any advances, deposits and prepayments is within \$1,000 of the
2 bond amount.

3
4 In Decision No. 59983, issued on January 16, 1997, MCImetro was authorized to provide
5 intrastate local exchange and intraLATA private line service in Qwest's service territory
6 in Arizona. Also, the company reported that it collects advances, deposits and
7 prepayments from its customers in Arizona. Since the company is able to offer facilities-
8 based and resold local exchange and long distance service and is collecting advances,
9 deposits, and/or prepayments, MCImetro should obtain a performance bond of \$235,000.
10 The bond amount should be increased in increments of \$117,500. The increase should
11 occur when the total amount of any advances, deposits and prepayments is within
12 \$23,500 of the bond amount.

13
14 Under Decision No. 61860, issued August 5, 1999, MCI WorldCom Network Services,
15 Inc. was not required to procure a performance bond to provide facilities-based and
16 resold long distance telecommunications services in Arizona. Since the Company's tariff
17 indicates that it has prepaid calling cards, it should procure a performance bond of
18 \$110,000 to comply with current guidelines based on past decisions. The bond amount
19 should be increased in increments of \$55,000. The increase should occur when the total
20 amount of any advances, deposits and prepayments is within \$11,000 of the bond
21 amount.

22
23 MCI WorldCom Communications, Inc. reported that it currently maintains an alternative
24 operator services tariff and provides long distances services. Under Decision No. 61860,
25 MCI WorldCom Communications, Inc. was not required to procure a performance bond
26 but was authorized to provide facilities-based and resold local exchange and long

1 distance. See Decision Nos. 59802, 60418, and 61860. In addition, the Company
2 reported that it collects advances, deposits and prepayments from its customers in
3 Arizona. The company should procure a performance bond of \$235,000. The bond
4 amount should be increased in increments of \$117,500. The increase should occur when
5 the total amount of any advances, deposits and prepayments is within \$23,500 of the
6 bond amount.

7
8 **OUTSTANDING COMPLIANCE ISSUES AND/OR OBLIGATIONS**

9 **Q. Has Staff determined whether any of Verizon's subsidiaries or MCI's subsidiaries**
10 **have any outstanding issues and/or obligations that need to be resolved?**

11 A. Yes. For each Verizon subsidiary and MCI subsidiary in Arizona, Staff reviewed
12 consumer service complaints, corporation issues, compliance items, and accident/outage
13 reports.

14
15 **Q. Are there any Verizon subsidiaries or MCI subsidiaries that have outstanding**
16 **consumer service issues that need to be addressed with the Commission?**

17 A. Each of the Verizon subsidiaries stated that they are not aware of any outstanding
18 consumer service issues that need to be addressed with the Commission in Arizona. Each
19 of the MCI subsidiaries in Arizona indicated that there are no outstanding consumer
20 service issues that need to be addressed with the Commission.

21
22 Consumer Services reported that from January 1, 2002 to the month ending July 2005,
23 the Commission received 851 complaints, inquiries, and/or opinions from Arizona
24 consumers regarding Verizon and MCI services. Based on the total number of residential
25 and business access lines reported in **Exhibit 4** by each Verizon subsidiary and MCI
26 subsidiary operating in Arizona, the total number of complaints, inquiries, and/or

1 opinions account for 1.8 percent of Verizon's and MCI's total number of access lines in
2 Arizona. This percent ratio of complaints, inquiries, and comments to total number of
3 access lines over a 43 month period lends support to the conclusion that Verizon
4 subsidiaries and MCI subsidiaries have been providing an acceptable level of service.

5
6 **Q. Are there any Verizon subsidiaries or MCI subsidiaries in Arizona that have**
7 **outstanding corporation issues that need to be addressed with the Commission?**

8 A. Each Verizon subsidiary claims that they do not have any outstanding corporate issues
9 that need be addressed with the Commission. MCI reports that its subsidiaries in Arizona
10 do not have any corporation issues that need to be resolved with the Commission.

11
12 Consumer Services reported that all Verizon subsidiaries are in good standing, except
13 Verizon Enterprise Solutions. There is no record of registration of the d/b/a name
14 Verizon Enterprise Solutions in the Corporation Section of the Commission. Also,
15 Consumer Services indicated that all of MCI's subsidiaries are in good standing, except
16 Telecom*USA. Telecom*USA is not in good standing because it is delinquent in filing
17 its Annual Report due May 29, 2005. In addition, there is no record of registration of the
18 d/b/a name Telecom*USA with the Corporation Section of the Commission. Both
19 Verizon and MCI should be required to register the d/b/a name of their respective
20 subsidiaries with the Corporations Section of the Commission. MCI should also be
21 required to file the delinquent 2004 Annual Report of Telecom*USA with the
22 Commission.

23

1 **Q. Are there any Verizon subsidiaries or MCI subsidiaries that have outstanding**
2 **compliance issues that need to be addressed with the Commission?**

3 A. All of the Verizon subsidiaries and MCI subsidiaries in Arizona reported that they are not
4 aware of any outstanding compliance issues that need to be addressed with the
5 Commission.

6
7 According to the Compliance Section, several of the Verizon and MCI subsidiaries had
8 outstanding compliance issues at the time the application was filed. However, the
9 Applicants have worked with Staff on these issues and there are currently no outstanding
10 compliance issues with any of the Verizon or MCI subsidiaries.

11
12 **Q. Has any Verizon subsidiary or MCI subsidiary in Arizona had any or made any**
13 **accident reports and/or outage reports to the Commission in the last three years? If**
14 **so, please explain and describe the details of the accident and/or outage reported.**

15 A. Verizon California Inc. stated that it had one outage and made an outage report to the
16 Commission. The outage occurred on March 19, 2005, when a non-Verizon
17 employee/contractor severed two cables with a backhoe. Staff in Consumer Services
18 confirmed that this outage was reported to the Commission by Verizon on March 19,
19 2005

20
21 Verizon Long Distance and Verizon Enterprise Solutions indicated that they resell long
22 distance telecommunications services and do not own facilities that would incur a need to
23 report an outage in Arizona. These Verizon subsidiaries also stated that they do not have
24 employees in Arizona and would not need to make an Accident Report to the
25 Commission.

26

1 MCI reported that there was an automobile accident on May 2, 2003. The claim was paid
2 as follows: bodily injury, \$8,348.65; property damage, \$7,106.47; and expenses,
3 \$1,232.50. In response to Staff's inquiry, MCI did not identify the specific subsidiary
4 that the employee involved in the May 2, 2003 automobile accident was working for.
5 MCI stated that this accident was not reported to the Commission. There are no other
6 accidents to report.

7
8 MCI failed to file an accident report with the Commission, as required under Commission
9 rules. As a result, MCI and its subsidiary violated A.A.C. R14-2-101 (A). MCI should
10 identify the subsidiary involved and provide a follow-up report to the Commission as
11 required by A.A.C. R14-2-101 (B). Providing specifics in the follow-up report as
12 indicated in A.A.C. R14-2-101 (A), (B), and (C) will ensure compliance with R14-2-101
13 (C).

14
15 **STAFF'S RECOMMENDATIONS**

16 **Q. Do you recommend that the Commission approve the reorganization proposed by**
17 **Verizon and MCI?**

18 **A.** Yes. Staff believes that there are benefits associated with the merger for MCI investors
19 and enterprise customers as set out above, but at this time Staff cannot find any benefit to
20 residential customers. Based on the benefit to MCI's investors and enterprise customers,
21 Staff believes that the merger is in the public interest. The Companies should provide
22 further information in the areas identified in my testimony however to assist the
23 Commission in its evaluation of this merger, whether it meets the requirements of R14-2-
24 803, and whether it is in the public interest.

25
26 Staff recommends approval of the proposed merger subject to the following conditions:

- a. The Companies should provide with their rebuttal testimony the remaining information required under A.A.C. R14-2-803, including the names and business addresses of Verizon and MCI officers and directors and any relevant documents and filings with the SEC and other state and federal agencies.
- b. The Commission should, in a separate proceeding, evaluate whether any limited waivers of the Affiliated Interest Rules should be granted to Verizon, and the nature of any such waiver.
- c. The Commission should require the Companies to file a notice with the Commission when the merger has been consummated within 30 days of its consummation.
- d. The Commission should require Verizon to file in this Docket copies of all petitions and/or comments filed at the FCC or with Congress which seek preemption of state regulation.
- e. At least 90 days prior to improvements to MCI's network and system facilities, Verizon shall provide the Commission with the dollar amount of the investment to be made in Arizona.
- f. The Commission should require Verizon Select Services Inc., Verizon Avenue, MCImetro, and MCI WorldCom Communications, Inc. to each procure a performance bond of \$235,000. The bond amount should be increased in

1 increments of \$117,500. The increase should occur when the total amount of any
2 advances, deposits and prepayments is within \$23,500 of the bond amount.

3 g. The Commission should require Verizon Long Distance to obtain a performance
4 bond of \$10,000. The bond amount should be increased in increments of \$5,000.
5 The increase should occur when the total amount of any advances, deposits and
6 prepayments is within \$1,000 of the bond amount.

7
8 h. The Commission should require MCI WorldCom Network Services, Inc. to
9 procure a performance bond of \$110,000 to comply with current Commission
10 practice. The bond amount should be increased in increments of \$55,000. The
11 increase should occur when the total amount of any advances, deposits and
12 prepayments is within \$11,000 of the bond amount.

13
14 i. Staff in Consumer Services reported that all Verizon subsidiaries are in good
15 standing, except Verizon Enterprise Solutions. There is no registration of a d/b/a
16 name Verizon Enterprise Solutions in the Corporations Section of the
17 Commission. Also, Staff in Consumer Services indicated that all of MCI
18 subsidiaries are in good standing, except Telecom*USA. Telecom*USA is not in
19 good standing because it is delinquent in filing its Annual Report due May 29,
20 2005. In addition, there is no registration of a d/b/a name Telecom*USA in the
21 Corporations Section of the Commission. The Commission should require both
22 Verizon and MCI to register their respective subsidiaries' d/b/a names with the
23 Corporation Section of the Commission. The Commission should also require
24 MCI to file the Annual Report of Telecom*USA for 2004 with the Commission.
25

1 j. MCI should identify the subsidiary involved in the reported car accident and
2 provide a follow-up report to the Commission as required by A.A.C. R14-2-101
3 (B). Providing specifics in the follow-up report as indicated in A.A.C. R14-2-101
4 (A), (B), and (C) will ensure compliance with R14-2-101 (C).

5
6 k. For a period of one year or the completion of all merger related activities which
7 ever is later, Verizon and MCI should be required to inform the Commission and
8 the Director of Utilities Division of any planned layoffs and/or closing of facilities
9 at least 60 days in advance of any such action as a result of merger related
10 reduction in force activities.

11
12 l. At least 90 days prior to changes to MCI's network and system, the company
13 should provide the Commission with the dollar amount of investment to be made
14 in Arizona.

15
16 m. Compliance with the additional conditions contained in Mr. Fimbres' testimony.

17
18 Staff believes that overall the proposed reorganization is in the public interest, if Staff's
19 conditions are met, and should be approved with the conditions recommended by Staff.

20
21 **Q. Does this conclude your direct testimony?**

22 A. Yes, it does.

2004 Revenue

CONFIDENTIAL

LD Customers

CONFIDENTIAL

LEC Customers

CONFIDENTIAL

Access Lines

CONFIDENTIAL

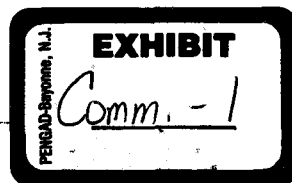
Employees

CONFIDENTIAL

Assets

CONFIDENTIAL

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Verizon CEO sounds off on Wi-Fi, customer gripes
Seidenberg also explains phone company's reasons for wanting to buy MCI

- Todd Wallack, Chronicle Staff Writer
Saturday, April 16, 2005



The head of the country's largest phone company ridiculed San Francisco's interest in building a municipal Wi-Fi network that is designed to offer cheap or free Internet service throughout the city.

"That could be one of the dumbest ideas I've ever heard," said Ivan Seidenberg, chief executive officer of Verizon Communications, during a meeting with Chronicle editors and writers on Friday. "It sounds like a good thing, but the trouble is someone will have to design it, someone will have to upgrade it, someone will have to maintain it and someone will have to run it."

Seidenberg said private companies like Verizon, which already run data networks, are much better positioned than government agencies to offer high-speed Internet service.

But Adam Werbach, a member of the San Francisco Public Utilities Commission, which is in the early stages of considering building a community Internet network, said Verizon and other phone companies are just worried about increased competition.

"It's like Bill Gates ridiculing Linux or Sony saying that Apple doesn't know anything about the music business," Werbach said.

During an hourlong interview, Seidenberg also sounded off on mobile phone complaints, his company's interest in buying MCI and other topics.

Seidenberg, for instance, said people often complain about mobile phone service because they have unrealistic expectations about a wireless service working everywhere. Verizon Wireless, a joint venture of Verizon and Vodafone, is the state's largest mobile phone provider.

"Why in the world would you think your (cell) phone would work in your house?" he said. "The customer has come to expect so much. They want it to work in the elevator; they want it to work in the basement."

Seidenberg said it's not Verizon's responsibility to correct the misconception by giving out statistics on how often Verizon's service works inside homes or by distributing more detailed coverage maps, showing all the possible dead zones. He pointed out that there are five major wireless networks, none of which works perfectly everywhere.

Seidenberg also defended the company's stiff cancellation fees and tighter return policy.

Last year, the California Public Utilities Commission ordered all phone companies to give customers 30 days to test a service without slapping them with hundreds of dollars in early cancellation fees. But after the PUC suspended the rule a month ago, Verizon shortened its trial period to 15 days to match its 15-day return policy in other states.

"We think there is a deal," he said. "We invest in the business and have the best service. But when you sign up with us, we'd like you stay with us."

Seidenberg also said Verizon is interested in buying MCI, despite its financial and legal troubles, because of its national Internet network and lucrative government and corporate contracts. "It would take us longer to build ourselves," he said.

Last month, MCI's board accepted Verizon's \$7.6 billion takeover offer, spurning rival Qwest's \$8.9 billion bid. So far, Qwest has refused to give up the fight.

Seidenberg ridiculed Qwest's offer, noting that Qwest has a market value of \$7 billion, far less than its \$8.9 billion bid. By contrast, Verizon has a market value of \$95 billion, reducing doubts that it can complete the deal. "We're the right answer," he said.

Although Qwest's offer appears much higher on the surface, both Qwest's and Verizon's offers contain a significant amount of stock. So if Qwest's stock fell sharply after completing the deal with MCI, its offer could actually turn out to be lower. Qwest could not be reached for comment late Friday.

Separately, Seidenberg encouraged Congress to rewrite the Telecommunications Act of 1996 to decrease the role of the states. Phone companies frequently complain that it's difficult to offer national services while conforming to a patchwork of state and local regulations. In addition, some states have tried to regulate phone companies more aggressively than the Federal Communications Commission.

"The first thing we'd do is pre-empt the states," Seidenberg said. "That's priority No. 1, No. 2 and No. 3."

Seidenberg also touted the company's plans to extend fiber-optic wiring to millions of homes across the United States, which will eventually allow it to offer faster Internet service and TV service, competing with cable. Verizon executives declined to say when the company will wire any cities in Northern California.

"There's a lot of factors that come into play," said Timothy McCallion, president of Verizon's Pacific region. Although SBC is the dominant telephone carrier in most of the Bay Area, Verizon offers service in some cities like Los Gatos and Novato.

Verizon is trying to eliminate rules in some states that require it to negotiate separate franchise agreements with each town where it wants to sell TV service, or to offer the product throughout an entire city even though its core telephone business does not always follow the city limits.

E-mail Todd Wallack at twallack@sfgchronicle.com.

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MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES



ARIZONA CORPORATION COMMISSION

BRIAN C. McNEIL
Executive Secretary
Direct Phone No.: 602-542-3933
Fax No.: 602-542-5560
e-mail: mspitzer@azcc.gov

June 29, 2005

Mr. Ivan Seidenberg
Chief Executive Officer
Verizon Communications
Corporate Headquarters
1095 Avenue of the Americas
New York, NY 10036

RE: MCI- Verizon Merger, Docket Nos. T-01846B -05-0279, T-03258A-05-0279, T-03475A-05-0279, T-03289A-05-0279, T-03198A-05-0279, T-03574A-05-0279, T-03197A-05-0279, T-02533A-05-0279, T-03394A-05-0279, T-03291A-05-0279

Dear Mr. Seidenberg:

I read with interest the attached article of your interview in the San Francisco Chronicle reported on April 16, 2005. I telephoned reporter Todd Wallach, and he stands by the accuracy of your reported comments.

As part of this docket, this letter is to determine if you meant what you said.

The statements regarding Verizon Wireless, 55% owned by Verizon Communications, do not relate to this docket, but perhaps explain the intensity of Verizon's lobbying campaign against consumer protections for Arizona wireless customers. If you truly believe Verizon Wireless customers have no reasonable expectation of cellular service in their homes, and have no right to a 30-day trial period for the Verizon Wireless products they purchase, then your company's lobbying position is understandable. Wrong, but understandable.

Your intention to pre-empt state regulation of telecommunications ("That's priority No. 1, No. 2 and No. 3.") is of concern to this state commissioner.

Your views are to my knowledge unique among telecommunications providers in the State of Arizona. Is there any role in your universe for the states to assure consumer protection? If not, why should this Commission approve the merger proposed in this docket?

Very truly yours,

Marc Spitzer
Commissioner

cc: Commissioners, Docket, All Parties

Enclosure:

Ivan Seidenberg
Chairman & CEO



1095 Avenue of the Americas, Floor 39
New York, NY 10036
ivan@verizon.com

RECEIVED

JUL 18 2005

July 13, 2005

The Honorable Marc Spitzer
Commissioner
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007-2996

Dear Commissioner Spitzer:

Thank you for your letter of June 29th regarding the *San Francisco Chronicle* article and other matters.

Let me respond to the letter by first stating that I respect your views as Commissioner for the Arizona Corporation Commission and recognize the responsibilities you have in regard to the public interest. As Verizon's CEO, I share that sense of responsibility to our customers whether they use our landline or wireless services.

The *San Francisco Chronicle* article that you reference reported my statements out of context. There were many things I said to the editorial board which made that context clear; unfortunately, they were not reflected in the *Chronicle* article. The quote was part of a detailed discussion with the *Chronicle's* Editorial Board about Verizon's \$4 billion national investment over the past few years to make the nation's best wireless network even better. The original purpose of wireless was to provide service to consumers when they were not at home or in the office, but moving about. Acknowledging that today the situation has changed and that customer expectations have grown, I pointed out our massive investment and strong efforts to meet this challenge. The fact is that, although wireless coverage is not ubiquitous for a number of reasons, we are always working to improve our network capabilities as well as our coverage.

Verizon Wireless is the premier and most successful wireless carrier in the industry, and this is because we place our customers first. This is not simply my view; it is what the consumers of wireless services have been saying for many years. Verizon Wireless has the lowest churn and greatest customer retention of any major wireless carrier. To quote *Consumer Reports* from the publication's 2005 survey of wireless customers, Verizon Wireless had the "highest levels of satisfaction in our customer survey." The survey of 17 major metropolitan areas around the nation, including Phoenix, Arizona, placed Verizon Wireless as highest rated in customer satisfaction, a conclusion that *Consumer Reports* surveys have found in each of the two previous years as well. As the enclosed list of recognitions demonstrates, Verizon Wireless is an excellent corporate citizen of Arizona. Moreover, Verizon Wireless is working in Arizona to support emergency officials who are fighting fires that threaten Arizonans and their property.

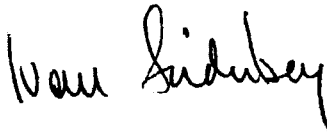
Page 2

We are the leading wireless carrier in Arizona because we invest in the state. Last year, Verizon Wireless invested over \$75 million to enhance its digital network in Arizona, and spent more than \$285 million overall in the last four years in the state. This investment enabled the company to update transmission sites and other technology to improve call quality, increase coverage areas, and deploy a variety of advanced wireless data services, including wireless data at broadband speed and multi-media messaging.

You are correct that Verizon Wireless opposes state efforts to regulate wireless services. The wireless industry operates in an intensely competitive environment on a nationwide basis. Congress had the foresight in 1993 to create a much different regulatory model for wireless, recognizing that traditional notions of state utility regulation should not apply. The results have been remarkable: coverage areas have increased, prices have declined, and innovations such as broadband access have proliferated. Thus, we feel strongly that state-by-state regulation of this very competitive national industry would not benefit consumers.

As for our pending merger with MCI, I believe strongly that this is the right move at the right time. This combination will best position our companies to provide customers the high quality service and range of options they increasingly demand from their communications services – whether those services are provided over wireline, wireless, cable, satellite, or some combination of technologies. Verizon and MCI are working with Arizona Commission staff to provide information for your review, and we look forward to a favorable determination.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Ivan Sidubey". The signature is written in a cursive, flowing style.

cc: Timothy J. McCallion, President - Pacific Region

Enclosure

Recognitions of Verizon Wireless in Arizona (2004-2005)

VZW Ranks Best in Arizona

Readers of *Arizona Business Magazine* have named Verizon Wireless the top choice for "Wireless Communications" in the 2005 "Ranking Arizona Business: the Best of Arizona Business" survey. This is the second consecutive year the company has taken top honors in the annual reader opinion poll. Last year, Verizon Wireless invested more than \$75 million to enhance and expand our Arizona network. (Published February 2005)

Verizon Wireless Outshines the Competition in Phoenix

When it comes to wireless service in the Valley of the Sun, readers of the *Phoenix Business Journal* found Verizon Wireless continues to shine brighter than the rest. For the second consecutive year, they named Verizon Wireless the top wireless provider in the Readers' Choice Awards. The paper notes that Verizon Wireless "is forever coming up with new ways to serve its base of growing business customers." (Published August 6, 2004)

Arizona's Advantage Award

Verizon Wireless' expanded operations in Arizona have earned the company recognition from the state's Department of Commerce and Governor Janet Napolitano. At a recent ceremony at the state capitol, Verizon Wireless was presented with the Governor's 2005 Arizona Advantage Award for our contribution to the state's economic development. The \$20 million Regional Headquarters and Customer Service Center in Chandler has added more than 600 new, full-time customer service jobs to the local economy in the past six months. The new positions bring the number of employees working in the state to more than 1,600. (Spring 2005)

Desert Peaks Award

As a founder member of the metro Phoenix Employers Against Domestic Violence (EADV), Verizon Wireless recently was honored with the Maricopa County Association of Governments' 2004 Desert Peaks Award in the category of Public-Private Partnerships. Verizon Wireless and other leading businesses involved with EADV were recognized for their efforts to address the issue of domestic violence as it affects the workplace. Last year, Verizon Wireless awarded more than \$32,000 in HopeLine grants to domestic violence agencies in Arizona, as well as donating 100 HopeLine wireless phones with one year of prepaid airtime to domestic violence agencies throughout the state. (Fall 2004)